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China Report

ECONOMIC AFFAIRS

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4 January 1985

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

ECONOMIC PLANNING

| | |
|--|----|
| Development of Medium-size Cities Discussed (Hua Kuiyuan; JINGJI WENTI [PROBLEMS IN ECONOMICS], No 7, 25 Jul 84)..... | 1 |
| Development Strategy of Group of Cities in Central Liaoning (Qi Luping, Sun Jinshan; JINGJI DILI [ECONOMIC GEOGRAPHY], No 3, Aug 84)..... | 11 |
| Improving Economic Results in Commercial Enterprises Analyzed (Wang Yang; JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT], No 4, 25 Jul 84)..... | 24 |
| Influx of Goods, Personnel Said Vitalizing Northwest Economy (GUANGMING RIBAO, 1 Nov 84)..... | 32 |
| New Vitality Injected Into Economy of Northwest Region (GUANGMING RIBAO, 1 Nov 84)..... | 34 |
| Peasants Reported Investing Heavily in Guangzhou Service Trades (Zhang Guoguang; GUANGMING RIBAO, 1 Nov 84)..... | 36 |
| Xinjiang Reports Foundation for Large-Scale Development (Wang Enmao; GUANGMING RIBAO, 7 Oct 84)..... | 38 |
| Role of Theoretical Workers in Economic Reform Discussed (GUANGMING RIBAO, 16 Sep 84)..... | 40 |

FINANCE AND BANKING

- Control of Nonbudget Funds Discussed
(Li Mu; JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY
AND BUSINESS MANAGEMENT], No 4, 25 Jul 84)..... 42
- Qinghai People's Bank To Change Controls on Loans
(Qinghai Provincial Service, 13 Dec 84)..... 48

MINERAL RESOURCES

- Briefs
Henan Managing Mineral Resources Meeting 49

INDUSTRY

- Guangdong Achieves Higher Gross Output Value
(NANFANG RIBAO, 6 Jul 84)..... 50
- Hebei's Industrial Output Rising
(HEBEI RIBAO, 9 Jul 84)..... 52
- Briefs
Nei Monggol TV Production 53
Heilongjiang Electronics Industry Development 53
Shandong Chemical Industrial Production 53

CONSTRUCTION

- Building Firms Advocate Joint Operation
(GUANGMING RIBAO, 25 Jul 84)..... 54
- GUANGMING RIBAO Writes on Scenes at Tangshan
(Liu Xieyang, Zhang Guoxin; GUANGMING RIBAO, 13 Dec 84)... 56

FOREIGN TRADE AND INVESTMENT

- Future Sino-European Economic Relationships
(Ying Hong, et al; LIAOWANG [OUTLOOK], No 31, 30 Jul 84).. 58
- Issues and Objectives in China's Trade With FRG
(Wei Yuming; GUOJI MAOYI [INTERTRADE], No 8, 27 Aug 84)... 66
- Effects on Sino-Foreign Joint Ventures on Foreign Trade
Development
(Shao Wangyu; GUOJI MAOYI [INTERTRADE], No 6, 27 Jun 84).. 72
- Shanxi's Foreign Trade Efforts
(Bai Qingcai; GUOJI MAOYI [INTERTRADE], No 6, 27 Jun 84).. 80

SPECIAL ECONOMIC ZONES

- Shenzhen Deputy Mayor Comments on Effects of Regulations on Zone
(Cheng Kai; YANGCHENG WANBAO, 13 Aug 84)..... 83

LABOR AND WAGES

- Shanxi Trade Union Congress Opens 9 December
(Shanxi Provincial Service, 9 Dec 84)..... 85

- Briefs
Shanxi Trade Union Congress Concludes..... 86

TRANSPORTATION

- Problems of Communications, Transportation Networks Reviewed
(Zhang Yangming; JINGJI [ECONOMIC GEOGRAPHY], No 3,
Aug 84)..... 87

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

- Labor Contractors' Experience in Middle East
(Wang Huiyao; GUOJI MAOYI [INTERTRADE], No 6, 27 Jun 84).. 99

PUBLICATIONS

- PRC Publishes Advertising Paper
(GUANGMING RIBAO, 25 Jul 84)..... 102

HONG KONG MEDIA ON CHINA

- Anhui Promotes Foreign Trade, Economic Cooperation
(Zhang Guohui; JINGJI DAOBAO [ECONOMIC REPORTER], No 31,
6 Aug 84)..... 103

- Legal Consultation Office Opens in Shanghai
(JINGJI DAOBAO [ECONOMIC REPORTER], No 31, 6 Aug 84)..... 106

- China Encourages Foreign Investments
(JINGJI DAOBAO [ECONOMIC REPORTER], No 31, 6 Aug 84)..... 107

- Dalian Offers Preferential Treatment To Open Doors Further
(Chang Chung-ch'ing; JINGJI DAOBAO [ECONOMIC REPORTER], No 33,
20 Aug 84)..... 109

HONG KONG ECONOMIC TRENDS

- Cooperation Prospects Between Hong Kong Electronics Industry, PRC
(Chen Jiwen, Huang Yi; GANG-AO JINGJI [HONG KONG AND MACAO ECONOMIC
DIGEST], NO 3-4, 1984)..... 112

ECONOMIC PLANNING

DEVELOPMENT OF MEDIUM-SIZE CITIES DISCUSSED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] No 7, 25 Jul 84 pp 38-43

[Article by Hua Kuiyuan [5478 1145 0337] of the Chinese Town and Country Construction Economic Research Institute: "Some Problems of Our Country's Development of Medium-size Cities"]

[Excerpts] Cities are places inhabited by a fair-size non-agricultural population. People thus generally regard the size of a city's population as the criterion in determining its size. Our country's organizational system for established cities is divided into four general levels: cities with a population of over 1 million are called very large cities, those with a population of 500,000 to 1 million are called large cities, those with a population of 200,000 to 500,000 are called medium-size cities and those with a population under 200,000 are called small cities. By the end of 1983, our country had a total of 289 cities of various sizes, including 20 very large ones, 28 large ones, 71 medium-size ones and 170 small ones.

"Controlling the size of large cities, rationally developing medium-size ones, and vigorously developing small ones" is our country's basic urban development policy. Many comrades have paid a lot of attention to and done a lot of research in the past 2 years on existing problems of large cities, the key role of their development and the problem of vigorously developing small cities, but have done less research on the problem of medium-size city development. If our country's medium-size cities cannot now develop in a healthy and normal way, it will be very difficult both to control the size of large cities and vigorously develop the small cities and towns, and this will inevitably affect the successful accomplishment of socialist modernization. This article will therefore be an attempt to make certain tentative inquiries into the problems of the position, role, characteristics and development of our country's medium size cities.

I. The Position and Characteristics of Medium-size Cities in Our Country's Urban System

Based on 1982 statistical data, our country's medium-size cities account for 29 percent of all cities throughout the country, 22.6 percent of the urban population, 25 percent of the urban area, 26 percent of the industrial enterprise units, 24 percent of the industrial enterprise staff members and workers, 22 percent of the total industrial output value, 24 percent of

of the fixed industrial assets, 20 percent of the industrial profits, 21 percent of capital construction investment and 12.7 percent of the students in higher institutes. The important position occupied by medium-size cities in our country's urban system can be seen from those figures. In the urban system, our country's medium-size cities also have the following characteristics:

First, among the various-size cities, the number of medium-size ones increased the most. In 1949, there were 6 very large cities with a population of over 1 million, 8 large ones with a population of 500,000 to 1 million, 17 medium-size ones with a population of 200,000 to 500,000, and 85 small ones with a population under 200,000; by 1982, there were 20 very large ones or a 233 percent increase, 28 large ones or a 250 percent increase, 71 medium-size ones or a 318 percent increase and 126 small ones or a 48 percent increase. Although the number of cities of all sizes increased considerably, the number of medium-size ones increased most rapidly.

Second, among the various sizes of cities, the population of the medium-size ones accounts for the biggest proportional increase in the total urban population. In 1952, the population of very large cities constituted 41.1 percent of the total urban population, large ones 19 percent, medium size ones 17.4 percent and small ones 22.5 percent; by 1982, the population of the very large cities constituted 43.3 percent of the total urban population, large ones 20.5 percent, medium-size ones 22.6 percent and small ones 13.6 percent. There was an increase in the population of very large, large and medium-size cities, but the rate of increase for medium-size ones was highest.

Third, the distribution of medium-size cities is quite balanced. As opposed to large and very large cities, the distribution range of medium-size cities is quite broad, and except for specific provinces (or autonomous regions), most have one to two or three to four medium-size cities, and some densely populated and economically advanced provinces (or autonomous regions) even have four or five. But large and very large cities are different: 11 of the 20 very large cities are distributed in the various provinces along the eastern coast, with over half of the provinces (or autonomous regions) throughout the country having none; and over half of the 28 large cities are also distributed in the various provinces (or autonomous regions) along the eastern coast, with 9 throughout the country having none.

Fourth, judged by the role and function of cities and towns, our country's large and very large cities are mainly provincial-level political, economic and cultural centers, with a few being large, national industrial cities; medium-size and small cities are mainly prefectural-level political, economic and cultural centers, with a few being developing industrial cities; and small cities and towns are mainly county-level political, economic and cultural centers, with a few being rural industrial-commercial assembly points. Over 40 medium-size cities are now therefore prefectural or grade-1 prefectural government seats (the two cities of Xining and Yinchuan in remote border provinces and regions are provincial (autonomous [region]-level centers).

It can be seen from the above characteristics that medium-size cities are the link connecting large cities and small cities and towns. On one hand, they have expensive contacts with large and very large cities, and on the other they have close ties to surrounding small cities and towns and the broad rural areas. They play a major connecting role in our country's urban system, and, moreover, their size is not large. They develop very fast, are distributed very widely, have very great vitality and are the backbone of our country's urban system with large cities as the nuclei.

II. Comprehensive Economic Results of Medium-size Cities

Due to the excessive concentration of industry and population, the size of large cities and especially of very large ones is now too large and problems generally exist such as difficulties in land utilization, housing shortages, insufficient water supply, congested communications, energy shortages and environmental pollution, not only affecting the development of the national economy but also the improvement of city dwellers' lives. Because many small cities have a single function, their employment scope is narrow and they develop slowly; their S&T foundation and production cooperation conditions are poor, economic results are not high and it difficult to develop their central roles; standards are low for all of their basic urban facilities and public welfare facilities, and considered from the viewpoint of benefiting production and making things convenient for living, they lack "appeal" for enterprises, staff members and workers. But medium-size cities are different: on the one hand they have fewer contradictions than large and very large ones in problem areas such as land use, water use, housing, communications, supplies and environment, which comparatively speaking are quite easy to solve; and on the other hand, they have more production categories and a considerable technical and economic base, and all their urban facilities are of a definite scope. Medium-size cities therefore have the conditions to avoid the abuses and small weaknesses of large and very large ones and can thus achieve better social and environmental results.

Judging from our country's present conditions, economic results are generally better in the cities in the coastal areas than in those in the interior and remote border areas and better in the old industrial cities than in the new ones, and this is closely related to the history of urban development and to urban geographical position, communications conditions, the economic and technical base, management and administrative standards and economic structure. Therefore, the bigger the city, the better generally the economic and technological base, the more advantageous to organizing specialized cooperation and comprehensive development and the higher the economic results; but in addition, our country now has many small and medium-size cities and in particular many "star" cities among the medium-size ones such as Changzhou, Nantong, Bangbu, Wuhu and Ningbo in which economic results are very high and in which major economic indicators such as realized profit taxes per 100 yuan of funds, realized output value and profit taxes per 100 yuan of fixed-assets original value, liquid assets per 100 yuan of output value and total labor productivity not only are far higher than similar large cities but also are by no means inferior to very

large cities with outstanding economic results. On the contrary, a considerable number of large and very large cities have quite poor economic results. Through a comparison of several major economic indicators of cities of various sizes, we can also see that even though medium-size cities include many developing industrial and mining cities in the interior and remote border areas with low economic results, their average standards are still higher than those of small and large cities, and here we have not excessively considered certain incomparable factors among cities.

Comparison of Several Major Economic Indicators of Cities of Various Sizes in 1982 (Unit: yuan)

| | 每百元资金实 现的利税 (1) | 每百元固定资产 原值提供的产值 (2) | 每百元固定资产 原值提供的利税 (3) | 每百元产值占 用的流动资金 (4) | 全员劳动 生产率 (5) |
|---------|-----------------------|---------------------------|---------------------------|-------------------------|--------------------|
| (6)特大城市 | 33.8 | 124.8 | 32.3 | 27.1 | 16.755 |
| (7)大城市 | 19.8 | 86.1 | 18.1 | 30.7 | 10.883 |
| (8)中等城市 | 22.9 | 93.0 | 21.9 | 31.1 | 12.160 |
| (9)小城市 | 18.7 | 93.8 | 18.2 | 31.6 | 10.917 |

Key:

1. Realized profit taxes per 100 yuan funds
2. Supplied output value per 100 yuan of original value of fixed assets
3. Supplied profit taxes per 100 yuan of original value of fixed assets
4. Liquid assets per 100 yuan of output value
5. Total labor productivity
6. Very large cities
7. Large cities
8. Medium-size cities
9. Small cities

It can be seen from the above analysis that the bigger the city, the better the general economic results with more problems in environmental and social results. After a city's size increases to a certain extent, not only are environmental and social results poorer, but economic results also decrease due to various unfavorable factors caused by the excessive expansion of the city's size. Therefore, under certain economic, technical and natural environmental conditions, cities have an optimum rational size; if they conform to this size, their economic, social and environmental results will be good, but if they exceed this size, their economic, social and environmental results will be poor. Too large or too small a city's size is thus unfavorable to both national economic and social development. Some overseas economists believe that comprehensive results are best and most

rational in cities with a 200,000 to 500,000 population, and they have called this the appropriate size for city development. This size has developed very fast in many countries. Taking Japan and the Soviet Union as examples, 15 Japanese cities with a 200,000 to 500,000 population had a total of 3.79 million or 13.7 percent of the urban population in 1940, and 71 had a population of 21.57 million or 25.4 percent of the urban population in 1975; 31 Soviet cities of this size had a population of 9.2 million or 18 percent of the urban population in 1940, and 87 had a population of 26.45 million or 20 percent of the urban population in 1975.

Good comprehensive economic results should therefore be both the greatest characteristic and the greatest appeal of medium-size cities.

III. Conscientiously Carry out Urban Development Policy and Do a Good Job of Building Existing Medium-size Cities

Compared to large and small cities, medium-size ones have many advantages, and they have definite superiorities in realizing the three overall areas of urban economic, social and environmental results. Doing a good job of building medium-size cities and promoting their economic development will be of major significance in our country's socialist modernization. Based on the urban development policy of "controlling the size of large cities, rationally developing medium-size ones and vigorously developing small ones," it will be essential to pay attention to the following problems in developing medium-size ones:

1. It is necessary To Stress Controlling the Population Size of Medium-size Cities

Medium-size cities have better comprehensive economic results because of their "moderate size," but if their population expands unrestrictedly and they develop into new large and even very large ones, then this characteristic of "moderate size" and its resultant advantages will not exist. The development of medium-size cities, therefore, also has a "control" problem; in other words, guided by overall city planning, medium-size cities must, on the one hand, develop scientifically and in a planned way and fully develop their active roles in national economic and social development and, on the other hand, also control the size of their population and area, avoid developing into new large ones and especially guard against expanding into very large ones. If a lot of attention is not paid to this problem from now on, many of these present medium-size cities will undoubtedly expand before long into new large and even very large ones. All of the present 28 large cities have successively developed since liberation from small and medium-size ones and some even from villages and small towns, and nearly all of the present 71 medium-size ones have developed since liberation from small cities, towns and villages; the population of approximately half of them exceeds 300,000. We should therefore take precautions to control the size of the population expansion of the medium-size cities.

2. Medium-size Cities' Economic Development Must Travel the Road of Taking Intensive Expanded Reproduction as the Major Factor

Industry is the basis of urban formation and development, industrial concentration causes population accumulation and expanding the size of industry is the major factor in the inflexible increase of the urban population. Medium-size cities thus should not in the future rely on increased capital construction investments, factories and equipment to develop production, and large and medium-size construction projects especially should not be arranged for certain medium-size cities with limited space and capacity and small development room. We should mainly rely on the potential, innovation and transformation of existing enterprises; transform old equipment and improve management and administration through extensive use of new technology, techniques and materials; and reorganize production based on the principle of specialized cooperation and internal economic contact in order to achieve a savings in raw and processed materials; energy and labor consumption and to lower product costs, improve product quality and realize product renewal and replacement, thus enabling the whole urban economic development to be built on the basis of technical progress and management modernization. Our country's urban economic results now are still low, there is a lot of unearthed potential and medium-size cities are no exception. Judged by statistical data, in all major economic indicators such as labor productivity, fund profit tax rates, supplied output value and profit taxes per 100 yuan of fixed-asset original value and liquid assets per 100 yuan of output value, approximately half of the medium-size "star" cities and the average standards for small cities are also considerable, and these are of course not all created by different urban economic structures.

3. It Is Necessary To Develop All Medium-size Cities in Line With Local Conditions

In the past, due to the effects of the small producers' self-sufficient natural economic ideology and to the management system, many medium-size cities also blindly pursued completeness in all industrial categories, carried out the system of being "small and complete" and "large and complete," created a lot of duplicate construction and wasted a lot of construction funds, seriously obstructing the improvement of urban economic results and also affecting the proper development of the whole national economy. Based on their own characteristics and conditions, proceeding from the overall situation and under the unified guidance of national planning, medium-size cities should in the future rationally revise their economic structures and develop in line with local conditions in order to develop their advantages fully. Due to limitations of funds and technical forces, medium-size cities must make special efforts in their respective superior trades, backbone enterprises and key products. Certain medium-size cities, moreover, must also avoid excessive singularity of functions and do a good job of comprehensive development based on specialization, enabling the two to be organically combined. This will be very significant in solving urban employment problems, improving the people's lives and raising comprehensive economic results. In this problem of the comprehensive development of production, we must now stress the comprehensive use of the "three abolishes" and the thorough processing of natural resources, which are the weak links of many medium-size cities.

4. Improve Medium-size Cities' Basic Facilities and All Other Construction

Due to the influence of the "leftist" guiding ideology, urban development has long meant vigorously carrying out industrial construction and vigorously running various factories, and it seemed that it was enough for a city to develop industry and make everything else secondary. Most basic urban facilities served production, some directly creating value, and played a major role in improving urban economic results and developing the national economy, but in national planning and statistical systems, basic urban facilities were classified as non-productive projects, and under the slogan of the first few years of "production first and livelihood last," they became indispensable. The Central Committee has paid particular attention to urban construction work in the past few years and has increased investment in this area year after year, but due to too many "outstanding accounts" accumulated for many years, basic urban facilities and public service facilities are still unsuited to urban development. Economic, social and environmental results are poor in a considerable number of cities, a major reason being that all urban facilities are backward, and this problem is very prominent in many developing industrial and mining cities of medium size. In order to improve basic urban facilities and all other construction, in addition to correcting our understanding of the importance of all urban facilities and correctly handling the dialectical relationship between production and livelihood, we must also solve the problems of funds needed for urban construction in the urban and planned management systems.

5. Consider Problems of Urban Structure and Development Directions Conforming to the Conditions of the "New Technological Revolution"

A "new technological revolution" is now brewing in certain major economically advanced countries, and a characteristic of this revolution is the rapid development of high technology and new industries. High technology is a type of knowledge-intensive sophisticated technology with low consumption, high efficiency and short replacement cycle and which exerts a profound influence. Its development results in relying mainly on knowledge and in widely using the S&T results of new and rapidly rising industries, and it spurs the whole industrial structure and causes major changes in related structures such as technology, resources, enterprises and education. The technical and economic conditions of medium-size cities are, comparatively speaking, quite able to adapt to these changes; for example, the Japanese government pointed out the need to regard medium-size cities with a population of over 200,000 as the rule in establishing high technology and new industrial strongholds. We should thus consider and plan the future internal structures and development directions of medium-size cities according to these conditions.

IV. Build and Develop New Medium-size Cities in a Planned Way

Our country has a population of 1 billion, 800 million of whom are peasants, and the level of urbanization is still very low. Along with the development of socialist modernization, a transformation process from an agricultural to a non-agricultural population and from villages to cities and

towns will inevitably occur. The major way out in solving the problem of our country's surplus rural labor force is to ensure that the peasants "leave the soil but don't leave the countryside" and in actively developing small cities and towns. There are now over 3,200 small cities and towns throughout the country, over 2,800 of which are organized towns, and over 370 are non-established county towns. In addition, there are approximately 54,000 rural market towns. Not only will a large number of new small cities and towns emerge in the future, but many small cities and towns will, moreover, develop into established cities. Forty-four county towns throughout the country established a municipal organizational system in 1983 alone. In order to build and develop new medium-size cities, it will be necessary to take the overall situation into account, to proceed under the guidance of national planning and, generally speaking, to consider the following area areas:

First, certain existing prefectural-level central cities and towns should be developed into cities. Since the 3d Plenum of the 11th Party Central Committee, rural commodity production and commune and brigade enterprises have developed very fast, and many small cities and towns have begun to thrive and prosper. In order now to enable these small cities and towns to become strongholds in promoting production development and modernization in the vast rural areas, there is an urgent need to give them more support and assistance in areas such as production cooperation, commodity circulation, technical progress, information exchange and intelligence development. Judged by our country's present conditions, only cities larger than medium-size ones with fairly good technical and economic bases have these strengths and abilities, and medium-size cities regarded as prefectural-level centers have wider contacts and closer relations with many surrounding small cities and towns and can give them support and assistance more conveniently and directly. In addition to doing a good job of building existing medium-size cities, we must thus select certain small cities with good technical and economic conditions and urban bases from existing small cities regarded as prefectural-level centers to build and develop step by step into medium-size ones.

Second, new medium-size cities should be developed in coordination with national key construction. During the two periods of the Sixth and Seventh 5-year Plans, in addition to the need to carry out the technological transformation of existing enterprises, it will also be necessary to carry out large-scale capital construction. Along with the construction of several hundred large and medium-scale key engineering projects, the size of many existing cities and towns will expand and a group of new cities and towns will also appear. Future key projects should be distributed according to the principle of combining proper concentration and decentralization, and this can both develop certain new regions and fully utilize the resources of all areas, enabling the productive forces to be more rationally distributed, it can also form cities and towns of a definite size, reduce construction of those complete sets of joint auxiliary facilities, basic facilities and public service facilities and cut down on land, communications and transportation expenses and a lot of national investment. Moreover, it will also be beneficial in organizing specialized cooperation and the

comprehensive utilization of resources and will create good conditions for improving the quality of life and service for residents of cities and towns, for solving the employment problems of staff members and workers' families and for developing the comprehensive administration of the environment, thus enabling fairly good comprehensive economic results to be achieved. Based on this proper concentration of distribution, we must select some cities and towns with good resources and communications conditions and with a lot of room to build and develop into new medium-size cities.

Third, we should stress building and developing new medium-size cities in the remote western border provinces and regions. In our country's remote northwestern and southwestern border provinces and regions, there is a vast territory with a sparse population, abundant resources and great development potential. The economy is still fairly backward, cities and towns very undeveloped and the number of cities even fewer in these provinces and regions at present. Along with the development of national modernization, the large-scale development of the remote western border provinces and regions will inevitably be placed on the agenda very soon. Based on these areas' natural conditions and characteristics, the development of energy sources such as oil, coal and hydroelectricity and basic raw and processed materials industries will first be development priorities. Then, it will be necessary to organize immigration from the densely populated eastern areas and to enable outside developers to be stabilized here and to live and work in peace and contentment. The urbanization levels of these provinces and regions will thus be very high. Already, the proportion of the city and town population in the three provinces and regions of Qinghai, Ningxia, and Xinjiang is higher than the national average, medium-size cities are still a weak link in these provinces and regions and the two provinces of Gansu and Yunnan only have very large cities and no medium-size ones. It will thus be essential to perfect the city-size structure and to develop medium-size cities; for instance, Gansu's Hexi Corridor has traditionally been our country's great northwestern communications thoroughfare, and in addition to having abundant mineral resources such as oil, coal and iron, it also has numerous rivers such as the Ruohang, the Shule, the Shiyang, the Hei, the Dang and the Beida as well as the Qilian Mountain glacial snow. Water resources are abundant and irrigation convenient, and not only is it Gansu Province's most advanced animal husbandry location, but it is also one of the areas in the Northwest Region with the greatest potential for developing animal husbandry. Selecting one of the existing cities and towns in the Hexi Corridor such as Jiayuguan, Jiuquan or Zhangye to develop into a medium-size city is regarded as one of the major bases in developing the Great Northwest and can alleviate the pressure of the continuous population expansion in the provincial capital, Lanzhou. Also, western Yunnan's Dali (formerly the city of Xiaguan) is the economic, cultural and communications center of that province's western region and also a strategic trading point for all nationalities in that area. As western Yunnan's major city, if it is developed into a medium-size city, it will be of major significance in the western Yunnan region's economic and cultural development.

Finally, certain special economic zones along the coast should be built and developed into medium-size cities. Building special economic zones will be of major significance in introducing advanced technology and management experience from abroad, in attracting foreign capital and in expanding foreign trade exports, and leading Central Committee comrades have recently again pointed out the validity of the policy of building them. Building certain special economic zones with superior development conditions such as Guangdong's Shenzhen into medium-size cities will enable them to develop their more important roles.

The problem of medium-size city development is not only a major component of our country's urban development strategy but also a major component of our country's economic and social development strategy and a major problem requiring a high degree of attention from all sides concerned.

12267

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ECONOMIC PLANNING

DEVELOPMENT STRATEGY OF GROUP OF CITIES IN CENTRAL LIAONING

Hunan JINGJI DILI [ECONOMIC GEOGRAPHY] in Chinese No 3, Aug 84 pp 209-214

[Article by Qi Luping [7871 7627 1627] and Sun Jinshan [1327 2516 1472] of the Research Institute for Urban Construction of Liaoning Province: "A Preliminary Probe Into the Development Strategy of the City Group in Central Liaoning", proofed and edited by Wang Qing [3769 3237] and Liu Shaoguang [0491 1421 0342], with materials provided by the Beijing Geographic Research Institute and the Economic Geography Research Department of the Changchun Geographic Research Institute; graph drawn by Pan Ying [3382 5391]]

[Text] Liaoning Province is an important industrial base of China, which is characterized by a large proportion of industry, a large number of large and medium-size cities and a large urban population. According to statistics, in 1982 the province had 13 large, medium-size and small cities and 93 organic towns; its nonagricultural population in cities and towns reached 12.277 million, accounting for 34.18 percent of its total population. In addition to the extra-large cities of Shenyang, Dalian, Anshan and Fushun, there are three large cities--Benxi, Fuxin and Jinzhou--and three medium-size cities--Dandong, Liaoyang and Yingkou--and three small cities--Tieling, Chaoyang and Tiefa. Both the number of large cities and the proportion of the urban population are the largest among all the provinces and autonomous regions in the country. In the past 30 years or so, large, medium-size and small cities in Liaoning Province have made important contributions in socialist construction. However, due to a high concentration of industry and population, they have also caused a series of economic problems in society. These problems are most outstanding in a group of cities in central Liaoning. Therefore, exploring the development strategy for this group of cities from the view of the rational distribution of industries, cities and towns has great political and economic significance.

I. Current Situation and Characteristics in the Development of the Group of Cities

An area in central Liaoning which covers areas under the jurisdiction of five large and medium cities--Shenyang, Anshan, Fushun, Benxi and Liaoyang with Shenyang as the center--is the nucleus of the most concentrated industries in northeast China as well as one of the most crowded city groups in China. It is a heavy industrial base developed on the basis of abundant coal and iron resources and is known as the "Ruhr Industrial Area" of China. According to statistics, the urban area of these five cities in the city group is 63,031,800 square km, accounting for only 4.3 percent of the total acreage of the province,

but the urban population is 7,651,500, accounting for over 60 percent of the total urban population in the province. Although the area is very small, nearly a third of Liaoning's industrial enterprises and over half of its total industrial output value are concentrated here. The output of major industrial products in this area, such as iron ore, steel, iron, steel products, aluminum, copper, lead and power transmission and transformer equipment, accounts for over 60 percent of the province's total and is the highest in the country.

This area has superior conditions for developing industry. First, it has abundant mineral resources. Its iron ore, magnesite and talcum reserves are the largest in the country. It also has fairly large coal, petroleum, natural gas, bauxite and construction material resources. Second, it has the most intensive railway network in the country and a comprehensive transportation network formed by highways, pipelines and airlines with railways as its mainstay. Third, it is close to the commodity grain production bases in the middle and lower reaches of the Liaohé. Fourth, it has many institutions of higher education and abundant scientific and technological forces. Fifth, it has the political, economic, scientific and technological and cultural centers of the province.

The rise of heavy industry in central Liaoning mostly dates back to the period of the Japanese puppet regime. In order to plunder the abundant mineral resources in this area, by the beginning of this century Japanese imperialists had already established iron and steel, coal, nonferrous metal and munitions industries to serve their colonial rule. After liberation, to utilize this industrial base fully, China made continuous efforts to restore and expand old industries and to build new ones in this area. During the First 5-Year Plan period, major construction projects in the iron and steel, coal, oil, power, nonferrous metal and machine-building industries were carried out, substantially accelerating urban construction and development. Judged by the situation in the development of resources and the conditions of urban construction at that time, the layout of industries, cities and towns was basically rational, economic and environmental results were relatively good and relations among all regions, departments and cities were fairly well-coordinated.

In the late 1950's, industries, cities and towns in this area developed markedly. But now the population of the large cities continues to expand, the development of the small cities and towns is slow, environmental pollution is serious, the relationship between "bones" and "flesh" is seriously unbalanced and the shortage of land, water, communications, housing and energy resources is daily becoming serious due to highly concentrated industries and cities and some problems left over from past industrial plans and distribution. This has not only substantially reduced economic and environmental results in society but also generated a series of economic problems in society. Because of this, it is imperative to make overall policy decisions in accordance with the situation as a whole so as to develop the advantages of city groups fully and increase the economic results of society.

II. Existing Problems in the Group of Cities and an Analysis of Their Causes

As early as 1847, Engels pointed out: "The dispersion of the agricultural population in the rural areas and the concentration of the industrial population in the large cities are only an indication that the level of industrial and

agricultural development is not high enough. It is an obstacle to further development. At present, we can already feel the impact of such an obstacle."* The development history of the city group in central Liaoning has fully proved this scientific thesis of Engels. The long absence of overall policies, regional planning and layout arrangements in addition to the strategic guiding ideology of emphasizing the construction of large cities, which is correct if the construction of medium-size and small cities is not ignored, has caused the catastrophe of a seriously polarized structure of the regional economy, expanded the differences between the urban and rural areas and caused industries and population continuously to centralize in the large cities. As a result, the scale of large cities continues to expand, resulting in an overall shortage of housing, water, energy resources, communications and land in cities, in increasingly serious pollution of the environment and in a serious imbalance of the ecosystem. Specifically speaking:

1. Land is extremely scarce.

Since liberation, farmland acreage in central Liaoning has been decreasing day by day. According to statistics, between 1949 and 1978 farmland acreage in this area decreased over 4 million mu, the per-capita farmland decreased from 3.2 mu to 1.2 mu and farmland owned by each peasant decreased from 4 to 6 mu to 2 to 3 mu. The farmland reduction is most serious in Shenyang, Fushun and Benxi Cities, each of which reduced its farmland equivalent to a county, dramatically sharpening the contradiction caused by a large population and scarcity of land in this area.

In the past 30 years or so, the urban population of the five cities in this area increased from 1.56 million to over 6 million--nearly 3-fold--and their industrial output value increased over 50-fold. However, because industries and population are highly concentrated and the land shortage is increasingly serious in the rural areas, urban areas cannot be expanded accordingly and urban planning is forced to adopt the method of "developing gradually from inside toward the outside by sticking a pin wherever there is room." This not only has facilitated the creation of confusion in the regionalization of urban functions and increased the difficulty of reform but has also substantially reduced the living space and public grassland of urban residents. Because every empty lot in the urban areas is occupied, leaving no room for another pin, and used-land transformation and high-altitude and underground development projects are limited by investment conditions, people have begun to occupy parks, grasslands,** roads, public squares, rivers and private courtyards, resulting in environmental deterioration, traffic congestion, inconvenience in production and livelihood and difficulties in earthquake rescue and fire prevention and causing cities to assume the shape of firmly packed "round cakes" which have only one center. Moreover, because industrial areas occupy

*Collected Works of Marx and Engels" Vol 4 p 371.

**Since 1966, over 300 hectares of parks and grassland in Shenyang City have been occupied; 179 hectares of parks and scenic areas in Anshan City have been occupied by 154 plants; and the coverage of vegetation has declined from 30 to 21.7 percent.

residential areas, and residential areas occupy public buildings, parks, grasslands, roads and public squares, it is inevitable that the land shortage in the cities will become even worse. For example, the population of Jiancheng District in Shenyang City has reached over 2.6 million, a more than 2-fold increase over the 1949 figure, and has already exceeded the target set for 2000 in the population plan of this city. But what is being used now is still the 164 square km of land designated during the urban planning in 1956 and land used by each person is only about 70 square meters, over a third less than the land used by each person in the average medium-size and small cities. At present, the population density of Shenyang City exceeds 16,000 people per square km, equivalent to 1.7 times the population density of Tokyo. Because land is extremely scarce, over 2,000 mu of land have been requisitioned and many six- and seven-story dormitories have been erected since 1978. However, this has also failed fundamentally to eliminate the land shortage. Benxi City is a mountain city, located in the Taizihe river valley basin. The amount of land used by each person in this city is 63 square meters and only 50 squares km of land are usable. All slopes with less than 30 degrees have already been occupied. Since many residential areas are occupied for industrial purposes, the ratio between industrial and residential areas has changed from 1:2 in 1954 to the present 1:0.8, causing the living environment to deteriorate and also imposing many restrictions on industrial development. Consequently, the pressure caused by the land shortage in the urban areas is becoming greater and greater.

2. Water is in short supply.

Liaoning is where water resources are the second scarcest among the provinces and autonomous regions of China, next to Hebei Province. Water shortages are most serious in the central area of Liaoning Province where water consumption is the highest. At present, this area needs 8.3 billion cubic meters of water each year and is 400 million cubic meters short each year. Water supplied by this area accounts for only 40 percent of the water supplied by the whole province, but water consumed by this area accounts for 79 percent of the water consumed by the whole province. The per-capita water resources are only slightly more than 600 cubic meters. Moreover, due to the overconcentration of industries and population and extremely high water consumption, underground water in Shenyang, Anshan and Liaoyang has been overextracted to a serious degree, the water level has declined half a meter each year and an underground-water declining funnel has appeared in a large area of more than 200 square km, posing a major problem for national soil improvement.

The five large and medium-size cities in this area are over 560,000 tons of water short each day, accounting for 66 percent of the amount of the daily water shortage in the 12 large, medium-size and small cities in the province. Along with the development of industrial, agricultural and communications undertakings and the improvement of the people's living standards in the future, water consumption is bound to increase substantially and the contradiction between water supply and demand will become even more outstanding. Moreover, because surface and underground water is polluted to different degrees, the situation of water shortages will worsen.

The rapid development of industries, cities and towns has occupied the irrigation water supply in the rural areas, creating a new situation in which "rural

areas build reservoirs and industries and cities and towns use large amounts of water" and therefore sharpening the contradiction of the water supply between industrial and agricultural production and between urban and rural areas. Because of this, it is imperative to carry out regional planning and work out overall solutions.

3. Environmental pollution is serious.

In addition to irrational distribution and poor management, heavy industries in this area are concentrated, equipment is mostly outdated, technology is relatively backward, energy and water consumption is high and the amount of "three wastes" discharged is large. Therefore, environmental pollution is extremely serious and very harmful in this area. According to estimates, within 10,000 square km of the urban areas, over 3 million tons of industrial waste water are discharged daily, accounting for over 60 percent of the province's total; over 300 billion cubic meters of industrial waste gas are discharged each year, accounting for 80 percent of the province's total; and 100 million tons of industrial waste residue are discharged each year, accounting for over half of the province's total.

The Hunhe flows through Shenyang and Fushun--two large cities which dump into the river over 1.3 million tons of industrial waste water each day, including nearly 60,000 tons of toxins each year in addition to several million tons of coal ash and sludge, causing the turbidity of the Hunhe to reach as high as 12,000 degrees and its phenol and oil content to exceed standards by 169- and 1,300-fold, respectively. The Hunhe has already become the "sewer" of these two cities. The Taizehe, which flows through the Benxi, Liaoyang and Anshan areas, also has been seriously polluted and urgently needs to be treated in a comprehensive manner.

Air pollution is also quite serious in various large cities of this area, especially in the morning and evening. According to monitoring results, each year over 60 billion cubic meters of industrial waste gas are discharged from Shenyang City and as many as 769,000 tons of pollutants enter the atmosphere. A major pollutant is the dust of heavy metals such as sulphur dioxide, mercury, aluminum, cadmium and chromium. The highest record of dust fall per square km is 242 tons a month. Anshan City discharges over 80 billion cubic meters of industrial waste gas and over 400,000 tons of dust each year. The content of sulphur dioxide in the air is 2.5 mg per cubic meter, over 80 times higher than standard, the highest in the province. Benxi City is located in a river basin, has poor atmospheric diffusion conditions and is affected by inversions in winter. Therefore, its air pollution is especially serious. Its highest record of dust fall is 269 tons per square km a month, the highest in the province. Thus, Tiexi District in Shenyang and Anshan Cities, Wanghua District in Fushun City and Pingshan District in Benxi City are all notorious smoke and dust pollution areas in the province and even in the country.

4. Traffic is congested.

Although central Liaoning is an area where the density of railways is the highest in China and railways have really formed a network, due to the continuous expansion of old industries and the building of new industries, its

transport volume has increased sharply. Moreover, because the development of communications construction is slow due to the restrictions of investment, the contradiction between transport capacity and transport volume is becoming increasingly outstanding. Its main expression is that existing marshalling stations and the transport capacity of trunk lines are incompatible with the needs created by a sharp increase of transport volume.

Because the expansion project of the Yuguo Marshalling Station has been suspended for nearly 20 years, the marshalling operation of the Shenyang Railway Center can only be handled by the Huanggutun and Dacheng Stations. At present, the marshalling capacity of these two stations has already reached super-saturation, resulting in traffic congestion. Due to the continuous expansion of such enterprises as the Benxi Iron and Steel Company, the marshalling capacity of the Benxi Railway Center has been saturated for a long time. Since the volume of coal transported from Shanxi Province has doubled in recent years, the passing capacity of the Jingshen Railway, which is a main artery of transportation inside and outside Shanhaiguan Pass, has also reached super-saturation. Because of this, the traffic has been diverted to the Shatong Line and a new port with an annual capacity of importing 5 million tons of coal has been built in Bayuquan of Gai County in Liaoning Province so as to solve the problem of having to transport a large amount of coal from Shanxi Province through the Shanhaiguan Pass. The technical standards of the Shenji Railway are low, but the freight volume of the section between Shenyang and Fushun has increased rapidly and its transport capacity has also reached the saturation point. The Shendan Railway is a single-track railway which has been overloaded for a long time, especially in the section between Benxi and Nanfen.

Traffic is congested not only between this area and other parts of the country but also within various large cities in this area. It is especially serious in Shenyang, Anshan and Benxi. Shenyang City now has close to 40,000 motor vehicles, more than 1.7 million bicycles, over 1 million industrial workers and a floating population of 100,000 to 200,000. Because the city is too big and people live far away from their offices and schools, and because traffic control and comprehensive management are poor, inner-city traffic is extremely congested. It becomes even worse during the rush hour in the morning and evening. According to incomplete findings, each day over 70,000 people go to work from the eastern part of the city to the Tiexi industrial district, and over 20,000 people go to work in small towns in the suburbs, causing great congestion in the eastbound and westbound traffic in this city. Staff members and workers spend as long as 2 to 3 hours commuting, and in the winter it often takes more than 4 hours. Because of the traffic jam, the average speed of trolleys and motor vehicles is less than 14 km per hour; trucks suffer over 400 million yuan in losses each year from frequent stops. Other cities also suffer from similar situations which are incompatible with the demand of the "four modernizations" for high speed and efficiency.

What is noteworthy is that the group of large cities in central Liaoning used to have superior natural economic conditions, but why are there so many problems now? The basic reason is that regional planning, unified planning and comprehensive balancing between resource development and industrial distribution and among various cities have not been practiced for a long time since the 1960's.

Moreover, urban planning has also been discontinued for many years, causing most industrial systems and enterprises to proceed from the interests of their own systems and units, all cities to focus attention only on their own gains and losses and each to do things in its own way and carry out expansion and new construction projects blindly. When choosing plants and deciding on plant sites, all large enterprises owned by the state, provinces and municipalities one-sidedly believe that they can depend on existing housing, water, power and communications facilities in the large cities. Therefore, large and medium-size enterprises try all possible means to squeeze their way in the large and medium-size cities. But in fact the heavy industrial development of central Liaoning has exceeded by a large margin the rational capacity of natural resources, environment, energy resources and communications in this area. Moreover, "overburdened operations" have been carried out for a long time in many fields. Under the condition of a serious imbalance between "bones" and "flesh," how many favorable conditions are still left in large cities for us to depend on? Large industries are doing all they can to squeeze themselves into large cities where "roads are of the 1930's and 1940's standards and population and vehicles are of the 1980's standards." This has not only worsened the imbalance of the relationship between "bones" and "flesh" but also hindered the further development of industry, caused huge damage to the economic results of society and exerted extremely detrimental effects on production and livelihood. A host of facts at home and abroad have proved that only by adhering to the principle of "large-scale dispersion and small-scale centralization" is it possible to benefit from the coordination and rational development of the two. At the same time, because the natural resources of an area are limited, the development scale and the density of population must not be expanded and increased infinitely. They must be restricted by such natural resources as water and land in this area. Because of this, only by carrying out regional planning as soon as possible will this problem be solved completely.

III. Tentative Ideas for the Development Strategy of the Group of Cities

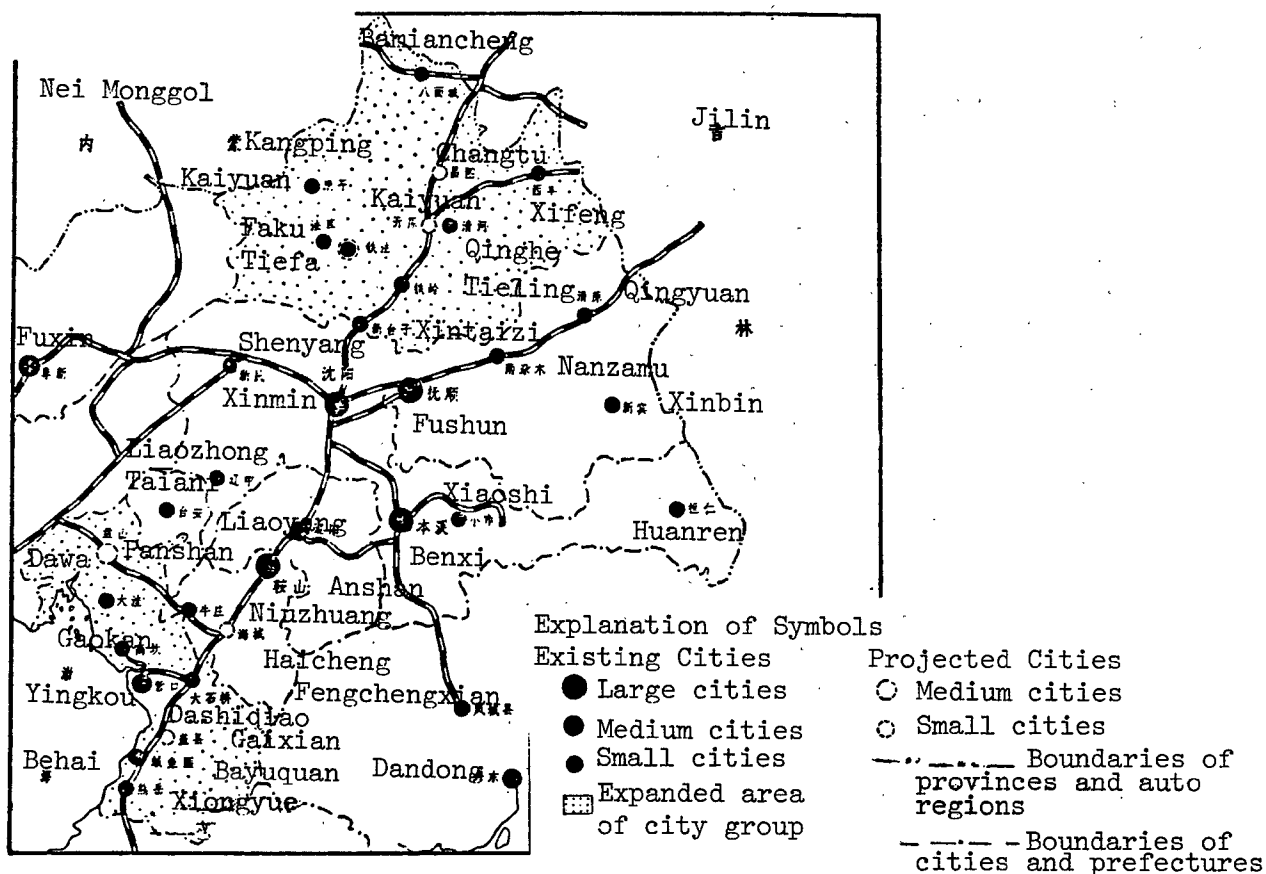
The following are preliminary ideas for the development strategy of the group of cities, which was conceived in accordance with the principle of the rational distribution of industries, cities and towns and the demand of promoting the "integration of industry with agriculture and the integration of urban areas with rural areas" and in light of the current situation and problems of central Liaoning:

1. Break through the limits of administrative divisions and build the group of cities into an economically coordinated region centered in Shenyang.

At present, the area under the jurisdiction of the city group in central Liaoning is relatively small and industries, cities and towns are crowded closely together. To change the situation of overconcentrated population and industries in the large cities and to promote the economic and cultural development of the rural areas to narrow the gap between the urban and rural areas and between industrial and agricultural production, efforts should be made to break through the limits of administrative divisions and establish an economically coordinated region which is centered in Shenyang and covers Anshan, Fushun, Benxi, Liaoyang, Yingkou, Tieling and Tiefert Cities and over 20 counties (districts) under the jurisdiction of these cities. Total acreage of this region

is 63,000 square km, accounting for 43 percent of the province's total. Its population is over 16 million, accounting for 47 percent of the province's total. Its nonagricultural population is close to 8 million, accounting for over 63 percent of the province's total. (See map.)

Map of Cities and Towns in the Economic Circle of Central Liaoning



Tieling Prefecture, which lies north of Shenyang and Fushun, administers two small cities and six counties, including Tieling, Changtu, Faku and Kaiyuan; covers an area of 17,000 square km; is an important base for the commodity grain, edible oil and energy resources in Liaoning Province; and has very close ties with Shenyang and Fushun. Therefore, it is a relatively ideal area for dispersing the economic and cultural functions of Shenyang and Fushun, changing the overcentralization of industry and population of the large cities and strengthening the construction of the rural areas. Since it also has two large enterprises--Tiefu Coal Mine and Qinqhe Power Plant--including it in the economically coordinated region can also be conducive to alleviating shortages concerning energy resources, land and communications. Similarly, Yingkou Prefecture--which administers one city and four counties, covers an area of over 8,000 square km, includes vast land and criss-crossing rivers and is known as a land of plenty and the "Great Southern Wilderness" of Liaoning--is also an important base for commodity grain and energy resources in Liaoning Province. In addition, it has advanced light industry, the Liaohe Oilfield and the newly constructed port in Bayuquan of Gai County. It not only has offered an additional seaport for the city group in central Liaoning but also is of great significance in changing the urban economic structure and alleviating the contradictions of the large cities concerning land, water, energy resources and communications.

2. Readjust industrial distribution and control the scale of large cities.

Readjusting industrial distribution is of extremely great strategic significance in exercising effective control over the scale of large cities, promoting the balanced development of cities and towns and changing the backward appearance of agricultural areas. Although the continuous expansion of old industries and the building of new industries in the 1950's substantially accelerated urban development in the city group of central Liaoning, the blind development of large cities has surpassed by a large margin the rational capacity of the urban environment and natural resources since the late 1950's, resulting in the aforementioned knotty problems. Therefore, to exercise effective control over the scale of population in the large cities, a determination should be made to readjust industrial distribution and control the mechanical growth of population in large cities in addition to persistently doing a good job in family planning. For this, clear stipulations should be drawn to prohibit the carrying out of large and medium-size construction projects in the central city in the future and to restrict especially those enterprises which occupy vast land, consume a large amount of energy and water, have a large transport volume and cause serious pollution problems. Major new construction projects which must be carried out should be arranged to be done in suburban satellite cities or neighboring counties and towns. Transformation and expansion projects of existing large and medium-size enterprises in the large cities should also be controlled. Enterprises which are supplements to large and medium-size enterprises and enterprises which serve the daily lives of local people may be allowed to develop appropriately, provided that they hire local people as their employees. With regard to those plants which sit in downtown or residential areas away from the production areas of raw materials and create much disturbance in the urban areas, such as the Shenyang Smelter and the Fushun Aluminum Plant, it is necessary to restrict their development and create conditions for them to move out. It is not proper for iron and steel companies in Anshan and Benxi Cities to carry out large-scale expansion projects on the spot. Judged from the comprehensive, overall and long-term point of view, it is proper to build the Bayuquan Port at the new plant site of the Anshan Iron and Steel Company. Taking into consideration the rational distribution of the oil industry, the economic and environmental results of society and the conditions of the water, land and electricity supply, it is not proper for Fushun to develop the petrochemical industry. Only by doing so will it be possible to help alleviate the increasingly acute contradictions posed by "population, natural resources and environment" in this area and increase the economic and environmental results of society.

3. Strengthen technical transformation and keep to the path of expanding reproduction extensively.

There are many old enterprises in the cities in central Liaoning. Their equipment is outdated and technology is backward. According to investigations, about a third of their industrial equipment cannot meet technical standards. About 35 percent of the machine tools and forging equipment of Shenyang City have been used for over 20 years and need to be replaced. The technical level of industrial products is very low, very few can meet advanced international levels and almost half are of average or backward levels. Even the Anshan Iron and Steel

Company would suffer disastrous consequences if it failed to pay close attention to its equipment renewal. Therefore, industries in all large and medium-size cities in this area must pay close attention to technical transformation, keep firmly on the path of expanding reproduction intensively, develop the range and quality of production, vigorously adopt new equipment, new technology, new techniques and new materials and extensively popularize technologies widely used in the late 1970's and early 1980's. They should vigorously study the experience of the Shoudu Iron and Steel Company and increase their industrial output value, profit delivery and tax payment while adhering to the condition that they do not increase their staff members and workers, land area, energy resources, water supply and the transport capacity of their plants.

The world is now facing a new situation, a new technological revolution. In other words, there will be major breakthroughs and extensive applications of new technologies concerning microelectronic technology, which is the core, biological engineering, optical-wave guide fibers, laser technology, information science, materials science, energy resource science and oceanography. Facing serious changes at home and abroad, industries in the cities of this area must fully realize this situation, adopt correct countermeasures and actively use microelectronic technology to arm the engineering and other industries to help rejuvenate the old industrial base and thereby make new contributions to the four modernizations.

4. Actively build scientific research and university cities in the suburban areas to help disperse the scientific research, cultural and educational functions of large cities.

The city group of central Liaoning is not only a base of heavy industry but also a center of science and technology, culture and education. According to statistics, the five large and medium-size cities in 1982 had 166 scientific research organizations and 12,709 scientific and technological personnel, accounting for 54 and 68 percent, respectively, of the province's total, and 26 institutions of higher education and nearly 32,000 students, accounting for 57 and 53 percent, respectively, of that in the 10 large and medium-size cities of the province. Among the five cities, Shenyang has the largest number of scientific research organizations and universities. According to statistics, Shenyang in 1982 had 115 scientific research organizations and about 10,611 scientific and technical personnel, accounting for 69 and 83 percent of that in the 5 large and medium-size cities, and 19 universities and 28,076 students, accounting for 73 and 88 percent of that in the 5 cities. This fully demonstrates that scientific research and cultural and educational units are fairly concentrated in Shenyang City. Therefore, they have a definite percentage of staff members, workers and land in the urban areas. This has created adverse effects on the efforts to control the scale of large cities and improve the living and working environment of scientific research and cultural and educational units. Therefore, actively building scientific research and university cities in the suburban areas of Shenyang and other large cities is of extremely great significance in dispersing the scientific research and cultural and educational functions of the large cities and promoting the scientific and cultural construction of the rural areas. To build scientific research and

university cities, it is necessary to carry out feasibility studies, do a conscientious job in planning and construction and strengthen transportation, power and telecommunications construction to help form a good environment for scientific research and teaching and create superior conditions for their rapid development.

5. Vigorously build satellite cities and small rural cities and towns.

Building satellite cities around large cities and vigorously developing small cities and towns in the rural areas are roads that China must follow in urbanization. It is also a strategic measure for dispersing industries and population in large cities and accelerating the social, economic and cultural development of the rural areas. Although exercising simple and isolated control over the scale of large cities may achieve certain results in the short run, it cannot solve problems fundamentally in the long run. The correct way to do this is to combine the efforts to control the scale of large cities and the efforts to develop satellite cities and small cities and towns conscientiously. This is the only way that really works.

In the economically coordinated region of the city group in central Liaoning, there are 43 organic towns and more than 500 small rural market towns in addition to 8 large, medium-size and small cities. Of all organic towns, 2 have more than 100,000 people, 5 have 50,000 to 100,000, 10 have 30,000 to 50,000, 19 have 10,000 to 30,000 and 7 have less than 10,000 people. Over 20 satellite cities or small cities and towns have been built around the 3 large cities of Shenyang, Anshan and Benxi, but none is well built due to a long-standing inability to understand fully the strategic significance of the construction of small cities and towns, a failure to implement policies, a lack of funds and poor city and public facilities. Although these cities and towns are only 10 to 20 km away from central cities, because they are not very attractive, they have been unable to play a major role in changing the situation of overcentralized industry and population in large cities. From now on, in addition to adopting political, economic and legal measures conducive to the development of satellite cities, efforts should be made to carry out major construction projects in cities and towns 30 to 50 km away from large cities that are in a proper location and have good conditions and appropriate foundations. The proper scale of such cities and towns is 100,000 to 200,000 people. Their city and public facilities should be as coordinated and complete as possible and they should have more employment opportunities and fairly superior material and spiritual civilizations to help attract industries, cultural, educational and scientific research units and their staff members and workers in the large cities. Tieling, Xintaizi and Kaiyuan in northern Liaoning are relatively ideal satellite cities of Shenyang City, Xiaoshi may be the satellite city of Benxi City and Niuzhuang and Ximu may be the satellite cities of Anshan City.

Strengthening the building of the three-tier city and town system of all city-administered counties is a pressing task that must not be ignored. With rural areas developing from a self-supporting and semi-self-supporting economy to a large-scale commodity economy, it has become an urgent need to strengthen the building of small rural cities and towns. With regard to the three-tier city and town system which consists of counties and towns, small regional cities

and towns and small rural market towns, in addition to doing a good job in the construction of counties and towns (which have been listed as key projects), it is necessary at present to strengthen major construction projects in such small regional cities and towns as Niuzhuang and Ximu of Haicheng County, Gaokan of Yingkou County, Bamiancheng of Changtu County, Wanfu and Xiongyuecheng of Gai County and Zhangqiangzhen of Kangping County. These cities and towns are economic, cultural and communications centers (rural centers) for five to six neighboring townships. Their average size is about 20,000 people. They already have a definite number of city, public and cultural facilities. Their attractive radius is 20 to 40 km. It is urgently needed to strengthen their construction of small rural market towns to accelerate the urbanization of rural areas. This is of great strategic significance in transferring a large amount of surplus labor in the rural areas, realizing the practice of "separating from the soil but not from the countryside" and accelerating the modernization of the rural areas. There are now more than 500 small rural market towns in this area. If each small market town attracts 3,000 people, they will have over 1.5 million people. The significance of this will be extraordinary.

6. Actively recover a number of old cities and towns and build a group of new cities in a planned and selective manner.

Laocheng and Bamiancheng of Changtu County, Laocheng of Kaiyuan County, Wanfu of Gai County and Niuzhuang of Haicheng County used to be county seats and had relatively good foundations. Later, due to the transfer of political centers in addition to an erroneous guiding ideology and neglected urban construction, these cities and towns gradually went downhill. Now efforts should be made to utilize these cities and towns fully, do a good job in supplementary construction, coordinate the relationship between "bones" and "flesh," overcome "unsanitary, disorderly and poor" conditions, actively develop industry and commerce, improve and beautify the environment, readjust policies and determine investment channels to attract industries in rural towns of large cities to settle down in these cities and towns.

Kaiyuan, Haicheng, Panshan and Gai Counties each has about 100,000 people. Their water, power, communications and land conditions are relatively good. Their location is ideal and they also have the seats of county government. A fairly good foundation has already been laid for the construction of cities and towns in these counties. At present, they should also do a good job in infrastructure construction, actively develop industry and commerce and strengthen the building of spiritual civilization so they can quickly form relatively modern new cities with a population of 200,000 to 300,000 and become "anti-magnetic force centers" so as to help control and disperse the industry and the population in the large cities. It is necessary to strengthen the construction of energy resources in the cities and towns. There are the large Tiefa, Shenbei and Hongyang coal mines and the Liaohe Oilfield in this economically coordinated region. To meet the need of accelerating the construction of energy bases and the demand to disperse staff members and workers in Shenyang, Fushun and Benxi Cities, it is necessary to strengthen the investigation and study of these energy bases and do a good job in the planning, construction and management of the city and town system of "one city with many towns." At the same time, it is necessary to draw from other areas or develop industrial and commercial enterprises to develop Tiefa and Panshan gradually into medium-size cities.

7. Strengthen administrative intervention, make a success of "using cities to bring along counties," readjust policies and exercise management by the legal system.

Exercising control over the scale of the large cities, readjusting industrial distribution, promoting the system of "using cities to bring along counties" and vigorously developing satellite cities or small cities and towns--these major strategic policies which were set forth and implemented as early as the late 1950's have not yet achieved very outstanding results. The main reason can be traced back to the incompetence of leadership and a lack of favorable economic policies and legal measures in addition to the failure in clearly understanding the strategic significance of these major policies from the point of view that combines theory with practice. Therefore, it is necessary to strengthen administrative intervention, vigorously promote the system of "using cities to bring along counties," do a good job in the planning of social, economic and scientific and technological development and the planning of the city and town system in city-administered districts and use the advantages of large cities in the economy, in science and technology and in culture to support vigorously the construction of small cities and towns in the rural areas. At the same time, it is necessary to formulate economic policies that are conducive to industries, staff members and workers in the large cities moving to satellite cities and peasants moving to small cities and towns to engage in industrial and commercial undertakings. For example, policies may be drawn up to exempt or reduce the taxes on enterprises in the first several years after they move into satellite cities or to raise the wages of staff members and workers. With regard to legal systems, it is necessary to formulate laws concerning national soil improvement, urban and rural area planning, construction of small cities and towns and the prevention of large industries from moving into the cities. The Liaohe Oilfield has attracted a number of doctors, teachers, cadres and technical personnel from Dalian, Yingkou, Anshan and Haicheng Cities and Counties to work in the oilfield because it has adopted a series of conducive policies concerning residence registration, wages, the economy, education and employment such as wage subsidies, solutions to housing problems, permission to change the residence registration of family members in rural areas to become residents of cities and towns, arrangements for children's schooling and employment and offers of cheaper or free fuel supplies and medical services. Practice has shown that strengthening administrative intervention, readjusting economic policies and doing a good job in legal management are the basic guarantees for promoting the development strategy of the cities and towns.

12302

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ECONOMIC MANAGEMENT

IMPROVING ECONOMIC RESULTS IN COMMERCIAL ENTERPRISES ANALYZED

Beijing JINGJI LILUN YU JINGJI GUANLI /ECONOMIC THEORY AND BUSINESS MANAGEMENT/ in Chinese No 4, 25 Jul 84 pp 20-24.

/Article by Wang Yang /3076 3152/: "A Clear Path To Raising Economic Results in Commercial Enterprises"/

/Text/ How a commercial enterprise can orient its work toward raising economic results is a question now being discussed and explored by all commercial enterprises throughout the country. Economic results are the positive achievements of commercial enterprises in operations, but how to make commercial enterprises achieve the maximum economic results is not only a question of commercial enterprise operation but also a question of commercial enterprise management. Only by continually elevating the level of enterprise management and merging operations with enterprise management to direct operations can all the work of the enterprises step onto the path of raising economic results.

(1) Commercial enterprises must establish the idea of operations in order to raise economic results.

A commercial enterprise, as an economic organization, must strive for its own development and growth by taking advantage of its own situation in accordance with objective laws. The prerequisite for developing and expanding commercial enterprises is to achieve the maximum economic results with the minimum labor consumption, and operation is the way for the commercial enterprises to achieve economic results. In modernized large-scale production, a commercial enterprise paying no attention to operations can achieve very few or no economic results and may even incur losses.

Operations are activities of commodity exchange carried out effectively and continually for the purpose of achieving a certain goal and adapting to the market changes by combining the operational factors of the enterprises (including personnel, funds, commodities, equipment and tools). The goal of operations is the end result an enterprise expects to achieve in a certain period in the future and is also the basis of harmonizing the enterprise's economic activities. Operations are also economic activities conforming to market changes. The commodity exchange activities carried out in the market are guided by the policy of the leading role of the planned economy and the supplementary role of market regulation. A commercial enterprise enters the market as a relatively

independent commodity exchanger, and its activities must proceed from the market and conform to the market needs and changes, otherwise the commodities will not be marketable and operations will fail.

Operations not only find expression in the fact that the economic activities of an enterprise must be adaptable with the changes of external factors but also find expression in the effective organization of internal operational factors. To attain its expected goal, a commercial enterprise must apply its operational factors to engage in the buying and selling of commodities. In operating a modern enterprise, this type of commodity buying and selling activity is not a process of simply using money to buy commodities or using commodities to exchange for money. Instead it is a process of organizing the commercial enterprise's manpower and financial, material and other factors together with the various links, sections, offices, departments and units involved in the purchasing, marketing, transfer and storage of commodities into a unified organism to make it run in a normal and continuing cycle according to a specific time table, definite standards and fixed procedures. This process represents a form of economic activity to achieve the expected goal of the enterprise by obtaining maximum results with a minimum consumption of labor.

The process of effectively organizing the operational factors of an enterprise is a management process. Management stresses the planning, organization, direction, supervision and regulation of the internal factors of the enterprise in the process of operation. To achieve the operational goal, a commercial enterprise must consider operations as the hub of all its activities on the one hand and practice scientific management according to the operational needs on the other hand so as to make management work serve the operational goal.

However, because the role of commodity economy and market control were denied in theory over the years, a shortage of supplies in relation to demand and supply lingered on for a long time; because economic management was too rigid, at times an enterprise would find itself as an auxiliary body assuming the position of an executor. On the other hand, the management side only showed an interest in fulfilling the economic targets but assumed no responsibility in achieving economic results. As a result, a dislocation between operations and management in commercial enterprises appeared and the phenomena of emphasizing management but paying no attention to operations or even ignoring operations emerged. Paying no attention to operations is the basic reason for poor economic results in commercial enterprises. A commercial enterprise paying no attention to operations may survive before the reform of the economic system, but it will be very difficult for it to survive after the reform of the economic system with the changes in the market situation.

A commercial enterprise aspiring to survive and develop under this new situation must change the above-mentioned state of affairs. Only by so doing can maximum economic results be achieved in the competitive market. To bring about such a change it is necessary for the commercial enterprises to have the idea of operations and consider operations as the core of the economic activities of enterprises and to practice scientific management according to operational demands to achieve the operational goal. This is the question that must be solved now if commercial enterprises wish to raise economic results.

(2) The key to guiding the operational activities of commercial enterprises onto the path of raising economic results lies in strengthening management work, raising the level of management and letting management work permeate the operational process.

To begin with, management and operations in enterprises are closely related, and with the development of socialized large-scale production, the enterprises have grown bigger and bigger in size with more personnel and more complicated business operations. The management activities have also become differentiated and have become independent from the operational process and have counteracted the operational process. The counteraction of management on operations becomes greater as the degree of socialization of enterprises becomes higher. The differentiation between management and operations is the natural outcome of enterprise socialization and this type of differentiation itself gives rise to the possibility of a dislocation between management and operations. To raise economic results, therefore, it is necessary to link management and operations together, with management centered around operations to serve the operational goal.

How can management and operations be closely coordinated to serve operations? The only way is to let management work infiltrate the operational process and to strengthen supervision and control over the operational process. Strengthening supervision and control over the operational process means seeing to it that in the daily management routine, the operational process will not deviate from the path of raising economic results but will proceed smoothly to attain the expected operational goal. This is a very thoroughgoing work embodied in the various links of the operational process in the enterprises to be carried out in all fields of enterprise management and among management personnel at work.

The business operational process of commercial enterprises may be divided into four parts in socialized large-scale production: the process of operational organization, the process of transferring funds, the process of moving commodities in substance and the process of labor organization. The implementation and rationalization of scientific management over these four processes will have an important and decisive bearing on raising economic results in commercial enterprises.

1. Strengthening supervision and control over the process of operational organization. In organizing the circulation of commodities, commercial enterprises have to move commodities from the production sphere to the consumption sphere so as to enable the consumers to obtain the commodities they need and realize the commodity value as well as the use value. However, in socialist commodity production, each enterprise is both a producer and exchanger of commodities of a relatively independent character, and the circulation of commodities should be organized in the form of buying and selling. A consumer can only obtain the consumer goods he needs through the process of buying, and the process of commodity exchange is completed when the buying and selling transactions are done.

Under conditions of socialized large-scale production, because the scope of commodity circulation is wide, the volume of circulation is large, the variety

is numerous, the specifications and quality standards are complicated and the hours involved in circulation are long and continuing, the many dispersed commercial enterprises in charge of organizing commodity circulation have to cooperate on the basis of a division of labor to organize jointly the network system for the entire circulation process. For this reason, the process of commodity exchange becomes more complicated with the socialization of production and must be organized in a planned manner. This should be done in general through market investigation and study and market forecasting based on the findings of investigation and study and by making an operational policy decision based on the results of the forecast. An integrated ongoing process of commodity exchange must be shaped in accordance with the operational policy decision and the stages from organization to implementation. Such a process of commodity exchange represents the everlasting operational activities of modern commercial enterprises. In order to guide commercial enterprises onto the path of raising economic results, it is necessary to tighten control and supervision over this process. To exercise control and supervision over this process, it is essential to inspect the actual implementation of the operational process to find out whether or not the operational plans are adaptable to actual conditions. If they are not, steps should be taken to regulate them accordingly so that the operational process can be continually implemented in keeping with the operational targets to attain the goal of raising economic results.

It should be pointed out here that in supervising and controlling the process of operational organization, the key question that needs to be solved is the question of commodity marketability. This is because the operational independence of the buyers and sellers in commodity exchange determines the process of commodity exchange which is voluntary and mutually beneficial in character, and the marketability of commodities in exchange has a decision bearing on the smooth progress of this process. If the commodities are marketable and can satisfy the needs, this process can be smoothly accomplished and the value of commodities and their use value can be realized to give enterprises economic results.

2. Strengthening supervision and control over the process of transferring funds. The process of commodity circulation goes with the process of transferring funds, and the two supplement and help each other. In organizing the circulation of commodities, large sums of fixed and circulating funds are tied up in commercial enterprises. The amount of funds tied up, the way the funds are used and the turnover rate of funds, whether rational or not, will have a bearing not only on the improvement of economic results in the commercial enterprises but also on the speed of the development of the national economy as a whole. Therefore, to raise economic results, commercial enterprises must also strengthen supervision and control over the process of transferring funds.

The process of supervising and controlling the transfer of funds of commercial enterprises can rationally reduce the amount of funds tied up and gradually bring the proportion of tied-up funds toward a more reasonable level, speed up the turnover of funds and raise the economic results in utilizing funds. The process of supervising and controlling the transfer of funds by commercial enterprises includes the following several aspects: funds tied up by commodities kept in stock, funds tied up by commodities in transit, funds tied up in settlement accounts and funds tied up by noncommodity items.

To strengthen the management of funds utilization, the system of economic responsibility must be set up while the accounting system is enhanced.

3. Strengthening supervision and control over the process of moving commodities in substance. Commodity circulation is accompanied by the movement of commodities in substance. Whether or not the movement of commodities in substance is rational or is done at a faster or slower speed and whether or not the commodities in substance has sustained any quantitative and qualitative loss or damage in the moving process will have an impact on raising the economic results of commercial enterprises.

While the rationalization of the process of operational organization and the process of transferring funds and the speeding up of the turnover may in general speed up the process of moving commodities in substance, it does not necessarily mean that the process of moving commodities in substance is actually sped up. If the commodities in substance are not shipped to the consumer areas and delivered to the consumers expeditiously upon the completion of the process of operational organization, the use value and the value of the commodities and the economic results cannot be realized. Therefore, to raise economic results, the commercial enterprises have to strengthen supervision and control of the process of moving commodities in substance in addition to tightening supervision and control over the process of operational organization and the process of transferring funds.

The purpose of supervision and control over the process of moving commodities in substance by commercial enterprises is to move the commodities quickly from the production sphere to the consumption sphere so as to minimize any damage or loss to the commodities, speed up commodity turnover and reduce the cost of circulation to achieve the goal of raising economic results.

4. In strengthening supervision and control over the process of labor organization, commodity circulation, like the production process, involves consuming a certain amount of materialized labor and expending living labor. The consumption of materialized labor is passed on to the commodity circulation cost, which gradually shifts to make up the commodity price. Expending living labor is different in two respects: a part of the living labor, as productive labor, continues to create new value in the circulation process adding to the value of commodities, and the other part of the living labor, as commercial labor, realizes the commodity value upon its consumption although it does not create new value. Organized in a rational way, this part of living labor can intimately influence the increase of the amount of created value as well as the amount of value. Once rationalized, the organization of labor can improve labor productivity and increase the amount of new value and the amount of actual value created by commercial labor. This is similar to reducing the consumption of living labor and raising economic results in the process of expanding commodity circulation.

Therefore, to raise economic results, commercial enterprises must also strengthen their supervision and control over the process of labor organization. The purpose is to rationally organize living labor, reduce the waste of manpower, raise labor productivity and mobilize the enthusiasm of workers and staff members so as to attain the goal of improving economic results.

(3) In adapting to the demand of improving economic results, reform the organizational structure of commercial enterprises.

The organizational structure of an enterprise is a management tool. The organizational structure of an enterprise is formed by a certain number of operational and management personnel. The essence of the organizational structure is to define the scope of responsibilities of every operational and management person and every department according to the type of commodity and function and based on which the mutual relations between them, the levels of management and the scope of responsibilities between the higher and lower levels are fixed. Thus the organizational structure of the enterprises is shaped by defining the scope of responsibilities and mutual relations. Enterprises have different organizational structures at different times which are subject to the influence of the market situation and change with the change of management tasks in commerce. Therefore, the organizational structure as a management tool must carry out a corresponding reform centered around operations before it can conform to the needs of strengthening operations and improving economic results.

The organizational structure of an enterprise is divided into two parts: the operational structure and the management structure. The reform of the operational and management structures in commercial enterprises must conform to the following five principles: (1) the setting up of a business structure must be conducive to harmonizing relations between purchasing and marketing according to the demand of market sales. (2) It must be helpful in linking up information for those in charge of purchasing and marketing so that they can exchange views and consult with each other. (3) It must facilitate the integration of power and responsibilities between the purchasing and marketing sides; general speaking, the purchasing departments are primarily responsible to production and the marketing departments, handling mainly the allocation of supplies, should be responsible for the market. The setting up of the structure, therefore, calls for unified responsibilities of the purchasing and the marketing sides. (4) It must facilitate the establishment of a unified command, and a unified command system must be set up to exercise command authority. (5) It must be conducive to operations involving commodities of different characteristics. In carrying out a reform of the operational structure of an enterprise in line with the above five principles, it is necessary to build the business operational structure of enterprises into a specialized business structure incorporating purchasing with marketing. In conforming to the changes in the market situation at present, this is also the trend of development of the operational structure in enterprises. The reform of the business operational structure in enterprises is compatible with the needs and demands of the buyers' market and helpful in raising economic results.

The reform of the management structure of commercial enterprises should help give full play to the ability of the enterprise management personnel and raise management efficiency. To this end, management work must be standardized and the work descriptions, work procedures and work methods of various departments concerned in the enterprises must be institutionalized and fixed according to the objective demands of management work to become rules and regulations to be used as the guiding principles of action for the management personnel so that everyone can take the initiative to perform his job well within the scope of his responsibilities and make contributions toward raising economic results.

(4) Strengthen economic accounting within the enterprises and improve economic results.

To improve economic results, it is necessary to strengthen economic accounting. Economic results mean a comparison of the amount of living labor and materialized labor consumed in the process of operations and a comparison of the amount of funds tied up with the achievements in operations and the achievement of economic results by consuming less labor and tying up fewer funds.

To guide the commercial enterprises onto the path of raising economic results, the economic accounting system within the enterprises must be strengthened. Many operational units in the enterprises are directly involved in organizing the circulation of commodities and in operational activities. The amount of funds tied up, labor consumption and costs and the size of profits involving the commercial enterprises are related to the operational activities of each business operation department. Thus the economic results of all enterprises can be raised only when the economic results of various business operation units are raised. Therefore, to raise economic results, the commercial enterprises must strengthen their economic accounting so that everyone in the various business operation departments will be accounting consciously and will be able to apply the principles of economic accounting to raise economic results energetically through his own work.

Economic accounting within the enterprises may be strengthened in the following way:

1. Each business operation department within the enterprise should be considered as a relatively independent commodity operational unit. Emphasizing economic results, it is necessary to compare labor consumption and the achievements in operations; in comparing, it is necessary to make serious calculations and the way to make this type of comparison and calculation compatible with actual conditions and with greater accuracy is to carry them out in close coordination with the business operation process. Thus, to improve economic results, it is also necessary to bestow the operational units within the enterprises with a certain limit of operational authority specifying that they should assume responsibilities for the economic results derived from business operations. Steps must be taken to examine the operational results in an all-round manner in light of the targets such as accounting on independent funds, expenses and profits. In this connection, steps must also be taken to link the economic interests of various business operation departments and workers and staff members with the economic results they provide. In this way, it will help mobilize all business operation departments and their workers and staff members to strengthen economic accounting, make an analysis of economic activities, find weak links in operations and improve management work in accordance with the findings in order to raise economic results continually.

2. Practice specialized accounting according to the different types of commodities. The amount of funds tied up and of labor consumed in the process of commodity circulation is related to the type of commodity. The extent of the demand for different types of commodities, the time limit for storage and the seasonal character of production, demand, storage and other factors are

different, and different commodities require different operational conditions and different demands entail varying degrees of the utilization of funds and labor consumption. Therefore, practicing specialized accounting according to the type of commodity will facilitate comparison among operation departments handling the same type of commodities and appraising their operational results.

3. Practice mass accounting. The business operation process of commercial enterprises is accomplished by the business operation personnel in utilizing the material and technical foundation and funds of the enterprises. The consumption of materialized labor and living labor and the amount of funds tied up in this process are closely related to the organization of the operational process; the amount of labor consumed, the funds tied up and the results achieved are all closely related to the operational process, the organization of labor and the work of the business operation personnel. By linking the material interests of workers and staff members with economic results, it will mobilize the enthusiasm of workers and staff members in achieving maximum economic results with minimum labor consumption and fewer funds tied up. Consequently, to strengthen internal economic accounting, it is necessary for the commercial enterprises to mobilize the masses to practice mass accounting so that every worker and staff members will check on the funds, costs, profits and other targets in the line of duty and find a way to raise economic results further by analyzing the accounting results.

4. Practice early-stage management and turn after-action accounting into before-action accounting. Early-stage management means management measures taken before operational activities occur. To reach the expected targets, the plan and budget governing labor consumption and funds utilization must be prepared before activities take place, and a most rational operational plan with the highest economic results must be chosen based on the result of the plan and the budget. In this way enterprise operations with clearly defined targets will be provided.

The purpose of economic accounting is to compare consumption with results and to find a way through comparison to reduce consumption and raise economic results. It is necessary to do after-action accounting to calculate and check on actual consumption and results. After-action accounting, practiced after the operational process is completed, is a way to gain experience in improving economic results. But it can only be used selectively in the next operational process and cannot be used to set well-defined economic targets for the enterprises. After-action accounting alone, therefore, will not give play to the role of economic accounting in raising economic results. Before-action accounting is comparable to track laying and the operational process is likened to walking. Practicing early-stage management and before-action accounting will surely lead the commercial enterprises onto the path of raising economic results.

12662

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ECONOMIC MANAGEMENT

INFLUX OF GOODS, PERSONNEL SAID VITALIZING NORTHWEST ECONOMY

Beijing GUNAGMING RIBAO in Chinese 1 Nov 84 p 1

/Article: "Commodities, Trained Personnel and Technologies Surge Toward the Great Northwest From the Economically Developed Areas--This 'Tide of Affluence' Has Injected Tremendous Vitality Into the Economy in the Northwest; Livelihood in Urban and Rural Areas Has Undergone Significant Changes; A New Economic Network Is Formed; Field of Vision and Minds of Northwesterners Are Widened and Enlivened; Competition Has Brought Pressure on Local People To Rise With Force and Spirit; This Pounding Tide Still Surging At Present"

/Text/ Since the 3rd Plenary Session of the 11th CPC Central Committee, peddlars, salesmen, construction teams and people of different kinds of skills from Jiangsu, Zhejiang, Hebei, Henan, Shandong and Shichuan provinces have been surging toward the Great Northwest like tides playing an outstanding role in propelling its economic development and reform.

In the past, the tide that moved westward from Xi'an was an "aimless flow." In a peak year, 130,000 people "flowed aimlessly" from the heartland into Xinjiang. Taking the place of this "aimless flow" now is a new tide. Judging from the number of people involved, the scale is not smaller than the past tide. On board a passenger train for Xining, this reporter discovered from the luggages on the racks that one-third of the passengers were traders. The number of workers registered by an area in Nantong, Jiangsu, to undertake construction in Xinjiang alone totaled over 10,000. Every small county capital and large rural market town in the Northwest has sewing shops, a service stalls or a shoes repair stalls run by people from Jiangsu and Zhejiang.

This tide came into being spontaneously under these conditions: 1) After the arable land in the rural areas is contracted out, the surplus labor force needs an outlet. 2) Relaxation of the rural economic policies has made the labor force mobile. 3) With the development of the village and town enterprises, large quantities of products have to be marketed. 4) As the state grain situation as a whole is taking a turn for the better, people going to the Great Northwest from other places can find a place to eat without having to bring along grain coupons. After arriving in the Northwest the people have the right to engage freely in business. Commodity prices can be allowed to fluctuate in line with market conditions through negotiation and floating. 7) Upon arriving in the Northwest, people are allowed to rent shop space and recruit apprentices.

The influx of commodities, peddlars and handicraft workers into the Great Northwest have also brought information, skills, the urge for reform and also the pressure to compete. It has injected immense vitality into the Northwest economy.

--The livelihood outlook in the urban and rural areas has undergone sharp changes. Moving westward from Lanzhou, the young people in the cities are now more "westernized" in their clothing than their peers in Xi'an and Zhengzhou. In the past, because orders for goods had to be placed through different levels as retails, it would take a long time for fashionable dress to reach the Great Northwest from Shanghai and Beijing. Now that individual households are engaging in business, the latest fashions from Shanghai and Beijing quickly appear at the fashionable clothing stalls in Kashi City in the westernmost border of our country. In the past it would have taken 2 months to have a dress made, but now, with the opening of Jiangsu and Zhejiang tailor shops (stalls) here and there, a dress can be ready for pick up on the same day. Moreover, the sewing technique is superior, the style is up to date, and it is made with less material. The furniture this reporter saw in the peasant households in Anxi County, Gansu, was of the latest style, made by Jiangsu and Zhejiang carpenters visiting the countryside. In the past, earth sediments were used to extract oil and grindstones were used for sanding in the rural areas in the Northwest. But with the products from the eastern village and town enterprises now prevailing in the market, the outmoded tools and instruments are becoming obsolete.

--A new economic network has taken shape. This network is in the form of cooperation and joint management between enterprises or in the form of personal relations between individuals. A great number of people from the coastal cities have settled down in the Great Northwest over the past 30 years. Taking advantage of this fact, everyone has tried to make contacts and acquire the necessary information, skills, raw materials and the most up to date products through these contacts. The peasants in the suburban district of Hami City in Xinjiang are able to sell their round onions to Guangzhou through a man in Shanghai. This is a great triangular contact. Although this network has inconvenienced industrial and commercial management it does play a very significant role in making the economy flourish.

12662

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ECONOMIC MANAGEMENT

NEW VITALITY INJECTED INTO ECONOMY OF NORTHWEST REGION

Beijing GUANGMING RIBAO in Chinese 1 Nov 84 p 1

/Commentary: "Cherish the New Tide That Injects Vitality Into the Economy of the Northwest"

/Text/ The excellent news is that commodities, trained personnel and skills are pouring into the great northwest from the more economically developed areas as Jiangsu, Zhejiang and Hebei, thereby giving great impetus to the economic development in the Great Northwest. It shows that the coastal provinces and cities have begun to become well-off and with the implementation of the party's policy on enlivening the domestic economy, this tide of affluence is surging toward the Great Northwest and injecting new vitality into its economy.

The Great Northwest is a place once portrayed in an ancient poem as "The one city wall among ten thousand-foot mountains." During the long years under the old society, the Great Northwest was also portrayed by the poets as a place where the "Wind and dust of the great Han country obscure the sun" and "Darkness masses its endless clouds." After liberation, the economic construction in the Great Northwest had remained backward in spite of the fairly good progress made. Was it because of the lack of natural resources there? No. It was because of its poor conditions compared with the coastal provinces and cities due to historical factors. Nevertheless, conditions as a rule are created by men. Then why did the economy of the Great Northwest remain in a backward state over such a long time? One of the very important reasons was that its commodity economy was underdeveloped and it was lacking in technology and trained personnel, information and competition thus putting the entire economy in a closed and ossified state. Now, the situation has begun to change. Following the relaxation of the economic policies, large numbers of peddlars, salesmen, construction teams and people with different skills from the more economically developed areas have surged toward the Great Northwest like tides bringing along with them the latest fashions, manufactured goods for daily use, handicraft and other skills thereby changing the situation in the northwest region characterized by the lack of economic information, technology and competition and by the backward level of management in the past. This surge has also brought a spring breeze of reform to invigorate the entire Great Northwest.

If the pouring of commodities, trained personnel and technologies into the Great Northwest in large volumes and numbers is said to be injecting vitality from

without, then the pressure of competition derived therefrom has mobilized the vitality for economic development in the Great Northwest from within. Socialist economy is a planned commodity economy. Since there is commodity production, there must be competition. Of course, the competition under the socialist system and that under the capitalist system are basically different as far as the goal, the nature, the scope and the means are concerned. However, it is wrong to avoid mentioning and to fear competition. Only through competition can the economy be enlivened and only through competition can the quality of products and the economic results of the enterprises be improved. This is best illustrated by the fact that the people of the Great Northwest have risen with force and spirit under the pressure of the influx of commodities, trained personnel and skills.

Both economically developed and underdeveloped areas must break free from the blockades and open their doors and strengthen economic and technical cooperation and exchange. Besides organizing various forms of cooperation and exchange in a planned way, steps must also be taken to affirm and support any form of exchange that engendered spontaneously. At the same time, we must cherish this surging tide and never let it take a turn for the worse, because this is also a way to enliven the economy and strengthen horizontal economic relations.

12662

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ECONOMIC MANAGEMENT

PEASANTS REPORTED INVESTING HEAVILY IN GUANGZHOU SERVICE TRADES

Beijing GUNAGMING RIBAO in Chinese 1 Nov 84 p 1

/Article by reporter Zhang Guoguang /1728 0948 0342/: "Guangzhou Welcomes Peasants To Open Shops in the City--This Will Supplement the State-operated Network and Outlets and Ease Hardships in Finding Places To Stay and Eat; Peasants Have Invested Over 160 Million Yuan in Hotels, Teahouses, Restaurants and Bazaars"

/Text/ Guangzhou City welcomes the peasants to open shops to do business in the city. By the first half of this year, the peasants have opened more than 450 hotels, teahouses, restaurants, bazaars, parking lots, wharves and other enterprises by investing a total of more than 160 million yuan.

In last year alone, the total income from the peasants' incity enterprises came to nearly 80 million yuan, the net profits totaled nearly 10 million yuan and the amount of tax delivered to the state came to 3 million yuan. The total income and profits from the first half of this year were 30 percent greater than that of the same period of last year. The fixed number of beds in the hotels established by the peasants in Guangzhou is equivalent to the number of beds in three Lihua Guest Houses. The peasant-established hotels at present are moving toward improving services in keeping with the comprehensive services being offered by large high-calss hotels. The Bodhi Garden Hotel jointly managed by the Xihua brigade of Lianxing Village and the Nanfang Mansion is equipped with air conditioners, color television sets, electric heating, carpets and high-grade furniture. The Jiangnan Mansion of a comprehensive service nature now being built by Lianxing Village is a 27-story building. The number of teahouses and restaurants established by peasants totaled more than 280 with a capacity of more than 20,000 seats, equivalent to the number of seats in 12 restaurants equal in size to the Guangzhou Restaurant. These teahouses and restaurants offer food of local flavor to the welcome of the customers. For example, Baiyun pig's feet (pettitoes), chicken in fragrant sauce and pine-seed fish and so forth are foreign friends' favorite dishes. The 98 bazaars established by peasants in the suburban districts, besides handling agricultural sideline products produced by the peasants also sell manufactured goods and articles for daily use. The amount of fruits sold by them last year alone totaled 100,000 dan. The village and town enterprises and collectives in the suburbs also built 38 small wharves along the rivers within city limits and, a parking lot capable of accommodating more than 2,000 cars at one time. The

19 larger hotels built with funds financed by the peasants themselves are equipped with a fleet of 200 sedans, tourist buses and service trucks. By running enterprises in the city, the suburban peasants have supplemented the deficient state-operated service network and helped ease the contradictions of difficulties in finding a place to stay and eat. Peasants entering the city to start enterprises may get a loan from the bank if they are short of funds.

12662

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ECONOMIC MANAGEMENT

XINJIANG REPORTS FOUNDATION FOR LARGE-SCALE DEVELOPMENT

Beijing GUANGMING RIBAO in Chinese 7 Oct 84 p 2

/Article by Wang Enmao /3769 1869 5399/, first secretary of the Xinjiang Uygur Autonomous Regional CPC Committee: "Xinjiang Has Foundation for Large-scale Development"

/Text/ Xinjiang was liberated peacefully in 1949 when the PLA marched into the region. In spite of the tortuous road we have traversed over 35 years, we have made great achievements as a whole. The tremendous progress made and the economic, political and cultural changes in Xinjiang and the great improvement in the livelihood of the people of all nationalities there have laid a solid foundation for the development and construction of Xinjiang from now on.

--We have built more than 4,100 industrial enterprises, over 2,000 of which are enterprises under the ownership by the whole people and collective ownership. The grand total of investments since liberation came to 18.7 billion yuan and the fixed assets that took shape amounted to 12 billion yuan.

--The total industrial and agricultural output value in the autonomous region in 1983 came to 9.399 billion yuan, or 12.07 times greater than that in 1949, ranking first among the five autonomous regions in per-capita total industrial and agricultural output value. The autonomous region's total industrial and agricultural output value in 1983 increased by 12.8 percent over 1982 and was higher than the national growth rate, which was 7.6 percent.

--Communications and transport have developed markedly. Today throughout the region, the length of operational railways totals over 1,470 KM, over 22,200 KM of highways are opened to traffic, and civil aviation routes extend over 13,000 KM.

--Cultural, educational, and scientific and technological undertakings have also made significant progress. In the whole region there are 13 institutes of higher learning with an enrollment of over 16,400 students, ranking 13th nationally and second among the five autonomous regions in student enrollment in the institutes for higher learning based on the per 10,000-student average. The number of intermediate schools totaled over 2,280 with an enrollment of more than 914,000 students, ranking third nationally and first among the five autonomous regions in student enrollment in the intermediate schools based on the per 10,000-student average. There are 104 intermediate specialized schools

with an enrollment of over 24,800 students. There are more than 150,000 scientific and technological personnel in the field of natural science in the whole region, of whom more than 38,600 are from the minority nationalities. There are 1,270 high-level intellectuals. There are 102 natural research institutes in the whole region with more than 4,600 subordinating scientific and technological personnel including more than 2,900 graduates from universities and specialized institutes.

Since the 3rd Plenary Session of the 11th CPC Central Committee, and especially in the past 3 years, with the cordial concern and support of the CPC Central Committee, Xinjiang has again made rapid progress in various fields of endeavor. The present marks the best period in the history of the autonomous region as far as the political and economic situation and national unity are concerned.

It goes without saying that the achievements we have made still rank very low compared with the national level of development and are even further behind the demands of the four modernizations and the demands of developing and building Xinjiang on a large scale from now on. Because we began with a weak and poor foundation our production, management and scientific and technological competence and economic results, or the comprehensive level of the average per-capita distribution of social products, are far below those of the advanced provinces and regions throughout the country. In particular, the scale of industrial and agricultural production and the production level are not commensurate with the abundant natural resources in Xinjiang. Speaking in this sense, Xinjiang is still an area that has basically not been developed or an area that has just begun to develop. Compared with areas in the eastern and central parts of the country, we are latecomers in developing this region. Since the CPC Central Committee has already decided to develop and build up Xinjiang in a big way, as long as we resolutely implement the line, principles and policies laid down since the 3rd Plenary Session of the 11th CPC Central Committee, faithfully implement the central strategic policy of developing and building up Xinjiang, put the spirit of self-reliance into play, and prepare the work for the great development with the support of the central authorities and various provinces, municipalities and autonomous region at the same time, Xinjiang will make giant strides in the days to come. We are certain that we latecomers can surpass the oldtimers.

12662

CSO: 4006/91

ECONOMIC MANAGEMENT

ROLE OF THEORETICAL WORKERS IN ECONOMIC REFORM DISCUSSED

Beijing GUANGMING RIBAO in Chinese 16 Sep 84 p 2

/Article from "Economic Forum" column by Ru Zhi /1172 4249/: "Theoretical Workers Should Study and Propagate Reform"

/Text/ Theoretical work should serve socialist modernization. Stepping up publicity on the theory concerning economic reform is an important aspect of the theoretical work in the service of the cause of modernization. While economic reform is progressing very swiftly, theoretical preparation for the reform, by comparison, is obviously inadequate. The numerous new situations and new problems that surface in the course of practical work urgently require us to probe and study theoretically. The many ideological problems that emerge among the cadres and the people in the course of reform also call on us to analyze, publicize and explain them correctly from the theoretical standpoint. Theoretical workers should step up their efforts to change the contradictions between theoretical work and the circumstances of reform and do their share in speeding up economic reform in the cities.

Theoretical work in the course of reform may be developed in two aspects: One, we should earnestly and correctly expound and publicize in reference to theory the principles, policies and measures defined by the central authorities so as to make the broad masses of cadres and the people understand profoundly their specific contents, correctness and necessity; at the same time we should also properly conduct a theoretical discussion on how to comprehend and specifically implement them. We should theoretically sum up in a timely manner the experience of achieving success under the guidance of these principles and policies so as to educate the masses further and guide practical work better. Two, we should study and discuss theoretically from all angles those questions that the central authorities have not yet formally resolved and put forth constructive suggestions for the party and state organs at all levels to use as reference in making policy decisions.

Our party has always advocated and encouraged discussion and debate of different views. Since the 3rd Plenary session of the 11th CPC Central Committee, the theoretical workers have put forward numerous excellent suggestions which have been drawn upon by the party and the state in formulating policies. If trial in numerous fields is permitted and margin for error allowed in the course of reform, then multifacet exploration in the study of theories for the reform and

margin of error should similarly be allowed. It is completely understandable and even inevitable that certain one-sided and erroneous viewpoints may crop up in the study of theories concerning reform. All these mistakes can only be corrected and surmounted by means of theoretical discussion and theoretical criticism and self-criticism, and should not be "criticized" from the high plane of principle and two-line struggle. Whether or not a certain theory concerning the reform is correct, it should ultimately be determined by means of practical experience. Without doubt, because of the complexities of economic life, in discussing and debating certain issues, we should pay attention to the appropriate scope and adopt appropriate methods so as to make the inquiry into the theories concerning the reform more conducive to the reform in practice.

Now, in the light of the realities of the reform and the mental state of cadres and the masses, there are many questions that require more penetrating study and convincing theoretical explanations by theoretical workers. For instance, the necessity, urgency and the historical inevitability of the reform; how to correctly understand the socialist economic system, expound the various aspects of the socialist economy in accordance with the principle of integrating the fundamental tenets of Marxism with China's actual conditions, clarify "Leftist" and other erroneous ideas; how to explain the leading role of the state-operated economy and develop economic diversification under the leadership of the state-operated economy; how to correctly understand and handle the relations between the state and the enterprises, elucidate the correct meaning and significance of separating government from enterprise functions, and correctly understand the functions of the state in managing the economy; what is the relationship between the right to ownership and the right to operation and how to explain it more comprehensively; how to explain the meaning of "better control for the big" and "flexible control for the small," what is meant by big and what is meant by small and where is the line of demarcation between the two; how to apply the law of value and give play to the role of the economic lever, and so on and so forth. The theoretical expounding of such questions in a more profound and comprehensive way will have a direct bearing on the smooth progress of the reform. Theoretical workers should do their share in these areas.

Reform is a new issue and no ready answer can be found from the classical writers of Marxism, nor does the history of socialist construction provide any matured experience. It can only be solved through practice in line with the principle of integrating the fundamental tenets of Marxism with the actual conditions in China. First of all, we must count on the participation of the broad masses of cadres and people in practical work. At the same time the theoretical workers should give full play to their own initiative and creativity and sum up and explain in a timely manner the rich practical experience of the reform in reference to Marxist theory and in light of actual conditions. This is complex and stupendous work. Nevertheless only by carrying out the task of studying and publicizing the reform can we revitalize the theoretical work and acquire the matchless rich contents and the enormous propelling force to further advance Marxist theory by closely integrating it with practice.

FINANCE AND BANKING

CONTROL OF NONBUDGET FUNDS DISCUSSED

Beijing JINGJI LILUN YU JINGJI GUANLI /ECONOMIC THEORY AND BUSINESS MANAGEMENT/ in Chinese No 4, 25 Jul 84 pp 11-13

/Article by Li Mu /2621 2606/: "On the Question of Strengthening the Management of Nonbudget Funds"/

/Text/ Nonbudget funds have increased markedly in recent years and have attracted wide attention. How large the proportion of nonbudget funds should be and how they should be distributed and used have a bearing not only on the question of the balance and concentrated use of financial funds but also on the reform of the economic system.

The Form of Budget Funds and Their Role

The state's financial funds are composed of three parts: budget funds, non-budget funds and credit funds, of which budget funds and nonbudget funds belong to financial funds. Nonbudget funds do not come under the financial funds of the state budget but include funds of localities, departments, enterprises, institutions and administrative units, the receipts and disbursements of which are handled exclusively by themselves. They are different from the budget funds and are more distinctly different from other types of social funds, such as the public funds of the rural collective economy and after-tax profits of those genuine collective enterprises in cities, towns and so forth.

The unified receipt and disbursement of financial funds, a method implemented during the early period of liberation in our country, were suitable to the political and economic needs at that time. However, with the victory of the socialist transformation and the development of the national economy, the financial system and the system governing the financial affairs of enterprises were partially reformed during the 1950's, giving localities and enterprises some decisionmaking power. As a result, nonbudget funds came into being. Changing the unified receipt and disbursement of financial funds is an important component of the reform of the economic structure in our country at the present stage, and the growth in nonbudget funds is precisely the outcome of this reform.

The state economy built on the ownership of the means of production by the whole people has a relatively independent character. Without this relatively independent character and decisionmaking power, it will be impossible to give full play to

the enthusiasm and initiative of localities and enterprises. The financial power held by the enterprises represents an important aspect of the enterprises' decisionmaking power; without the financial power and funds at their own disposal, decisionmaking power is but empty talk to them.

With the reform of the financial system, the localities and enterprises will have access to a fixed amount of nonbudget funds. Generally speaking, the nonbudget funds are similar to the budget funds, both reflecting relations between the distribution and redistribution of the national income (with the exception of the part belonging to the compensatory funds). The nonbudget funds established by local departments and enterprises give recognition to their own decisionmaking power and partial interests. In substance, this type of interest represents the right to distribute social products. Various units are allowed independently to use the nonbudget funds distributed to them for developing production and other types of economic and cultural undertakings. The localities and enterprises also have the right to use some of the economic gains derived from the use of these funds to engage in urban construction, improve conditions for production and also use them on collective welfare for the benefit of workers and staff members and for awards. In this way, it will give an incentive to advanced production and management units and advanced workers, and staff members and it will also do away with the egalitarian practice and change the practice of "eating from the same big pot." Therefore, the utilization of nonbudget funds will bolster the vitality of the socialist economy and augment the motive forces of the enterprises.

A multichannel system of managing financial funds is not only good in giving play to the positive role of nonbudget funds but is also necessary and beneficial to the state budget funds. Some other special funds not included in the state budget have corresponding functions that help alleviate budgetary burdens. The budget funds and nonbudget funds therefore supplement and help each other forward.

The Growth of Nonbudget Funds and Existing Problems

The nonbudget funds have grown at a rather fast rate in recent years. Judging from the relative figures, while nonbudget funds in 1978 constituted only 33.2 percent of the state budget funds, they rose to about 60 percent by 1981. From the standpoint of absolute figures, the nonbudget funds increased from approximately 37.2 billion yuan in 1978 to 62.7 billion yuan in 1981. At the same time, state budgetary revenue decreased from 112.11 billion yuan to 106.4 billion yuan. The decrease in budgetary revenue was related to the readjustment of the national economy. However, it is an undeniable fact that the nonbudget funds, by growing too fast, also pushed against the state budget funds. The situation was more evident in the localities; for example, while some provinces reported almost no increase in budgetary revenue between 1978 and 1981, their nonbudget funds, which more than doubled, came close to or equaled the amount of budget funds. Moreover, in some provinces the nonbudget funds came close to tripling those of the budgetary revenue in those years. As a result of the growth of nonbudget funds at excessive speed, a state of imbalance in the ratio of distribution of the national income occurred as shown in the following table:

| | Total Product of Society | National Income | Unit: 100 million yuan State Budgetary Revenue | Nonbudget Funds |
|-----------------------------|-----------------------------|-----------------|--|--------------------|
| 1978 | 5,690 | 3,010 | 1,121.1 | 372 |
| 1981 | 6,919 | 3,887 | 1,064.3 | 627 |
| % of 3- year increase | 21.5 percent | 15.9 percent | -5 percent | 68.5 percent |

From 1978 to 1981, the total product of society rose 21.5 percent and the national income jumped 15.9 percent. In these circumstances, the state budgetary revenue decreased instead of increased and the nonbudget funds on the other hand rose 68.5 percent. The nonbudget funds not only exceeded the growth rate of revenue in the state budget but also surpassed the growth rate of the total product of society and the national income as well. This means that the nonbudget funds had grown too fast in relation to the distribution of the national income. This can be seen from the profit retention level of enterprises (the percentage of profits retained by the enterprises in relation to actual profits): the profit retention levels of state-operated enterprises throughout the country were 6.4 percent in 1978, 10 percent in 1980 and 12.3 percent in 1981. The profit retention level of the state-operated industrial enterprises was even higher: it was 5 percent in 1978, 13 percent in 1979, 18 percent in 1980 and 21.5 percent in 1981. While the profit retention level went higher and higher, the amount of profits to be delivered to the state as revenue became smaller and smaller, dropping 39.3 percent between 1978 and 1981. This affected the balance of the state budget and caused the financial deficit. That the state puts a portion of the national income into the nonbudget funds is for the purpose of mobilizing the initiative of localities and enterprises, increasing production and raising economic results. However, in so doing, it is necessary first of all to ensure the balance of the financial budget for the current year. The amount of national income allocated by the state for nonbudget funds should not exceed the allowable limit of the state's present financial resources. In distributing financial funds, the first consideration is that budgetary revenue and expenditures must strike a balance before taking up the next question about the increase of nonbudget funds. If the budgetary balance of the current year is affected by the growth of nonbudget funds, the indication is that the growth is going too fast. The balance of the state budget has a bearing on the stability of the national economy and the balanced expansion of reproduction. If the balance is upset, it will be difficult to make up for the overall losses, and even some advantages can be drawn from certain areas in economic development.

The nonbudget funds, growing too fast and improperly used, will have numerous detrimental effects on the national economy, principally in the following areas:

(1) Unrealistic capital construction and the expansion of the investment scale in capital construction affect the ratio balance of the national economy. In implementing the policy of readjustment, the state must first of all compress the investment in capital construction that is incompatible with the national resources. However, in recent years while investments in capital construction

with budget funds are reduced, investments in capital construction with non-budget funds increased by leaps and bounds. For example, the capital construction funds arranged by various units themselves between 1978 and 1982 rose from 8.4 billion yuan to 17.8 billion yuan, thereby greatly increasing the above-norm investments for capital construction. Of the 10 billion yuan in above-norm investments in capital construction in 1982, investments with self-arranged funds were in excess of about 5.69 billion yuan. Unrealistic utilization of nonbudget funds and the rapid increase of self-arranged funds for capital construction have created a situation of putting the entire capital construction scale beyond the capabilities of the national resources. This is bound to hamper the proper use of investment funds for the construction of key projects by the state. Owing to the lack of control over capital construction and the decentralized use of funds in 1982, which give no assurance to key projects, only 58.8 percent of the planned large and medium capital construction projects were completed and put into operation. For example, the portion of investment in the energy industry, a weak link bearing on the national economy, dropped from 20.6 percent to 18.3 percent rather than went up. If this situation is not corrected expeditiously, the imbalance of the national economy may be further aggravated.

(2) Hampering the improvement of economic results. By arranging funds for capital construction themselves, the localities and enterprises have duplicated the construction of some projects, thus putting them in a position to scramble for raw materials with the key construction projects and for resources with other enterprises engaged in production. Because of the unrealistic character of the construction, the productive capacity for certain products exceeded social needs, thereby restricting the full use of certain productive capabilities or turning out superfluous products not needed in the market. These construction projects, including numerous nonessential small factories with poor production techniques and low operational efficiency, have created a situation in which the backward enterprises crowd the advanced ones. As a result, economic results drop instead of increase.

(3) Obstructing technological renewal and reform. If the nonbudget funds for capital construction are utilized unrealistically, funds earmarked for equipment renewal and reform of fixed assets will be diverted, thereby seriously hampering technological renewal and reform. Nationally, funds earmarked for technological renewal and reform and for investment in new construction projects and expansion projects account for only 40 percent. This is detrimental to the four modernizations drive.

(4) Transforming production funds into funds for nonproductive projects directly weakens the socialist expansion of reproduction. For example, the funds retained for renewal and reform of all state-operated enterprises in a certain province or city totaled 19.13 million yuan, of which only 51 percent was used in productive expenditures. Furthermore, funds earmarked for afforestation and highway maintenance were drawn but not used for the purpose intended. This practice of increasing nonproductive expenses at will and of caring for only immediate instead of long-term interests is incompatible with the principle of "first, feed the people and, second, build the country."

The Management of Nonbudget Funds Must Be Strengthened

The fundamental goal of setting up the nonbudget funds is to raise the economic results of the national economy. However, the nonbudget funds in the hands of the localities and enterprises are at times restricted by partial interests and cannot take into account the overall situation. Therefore, it is necessary to combine macroeconomic results with microeconomic results so as to ensure the macroeconomic results. To give play to the positive role of the nonbudget funds, it is necessary to strengthen the state management of nonbudget funds. The following methods may be adopted now:

(1) Including nonbudget funds in the comprehensive financial planning and striking a comprehensive balance. Both nonbudget funds and budget funds come under the ownership by the whole people; only the channels, utilization and controlling units and the ways of using them are different. Because the nonbudget funds are widely dispersed, the imbalance they create is not readily tangible but once it is exposed, the resulting problems may become more serious. Therefore, besides drawing up the budget, the state must also draw up and examine plans for controlling the nonbudget funds at the same time. These budget funds, nonbudget funds and credit funds must be unified under a comprehensive financial plan to take into overall consideration the various types of financial revenue and expenditures and to strike a balance of funds under different categories so as they can supplement each other and play their roles accordingly. In this way, it will give play to the proper utilization of funds and avert the passive effects brought about by the nonbudget funds.

It goes without saying that the state method of managing the nonbudget funds should be different from that of managing budget funds, and flexible methods of management should be adopted to cope with different conditions.

(2) With regard to the already enlarged nonbudget funds and the nonbudget funds that may grow excessively fast in the future, the state should make concentrated use of these funds according to actual needs and possibilities by borrowing and gathering them so as to ensure the needs of the state's key construction projects.

(3) Conducting a realistic investigation of and giving an estimate of the possibilities of the growth of nonbudget funds in enterprises in the future by integrating with the reform of the economic and financial systems such as the substitution of tax payments for profit deliveries. With regard to the enterprises' after-tax profits, whether or not the methods of delivery used are in the form of a contract system based on a progressive increase, fixed ratio, regulatory tax or fixed-quota contract system, the profit retention percentage must be fixed rationally in keeping with the principle of the lion's share for the state, the medium share for the enterprises and the small share for the individuals so as to put the nonbudget funds under control at a fixed scale and level.

(4) Controlling the direction of the utilization of nonbudget funds. Capital construction investments must be strictly controlled; a more flexible policy should be applied toward the renewal and reform of the fixed assets of the enterprises, and technological reform must be carried out systematically at

key points. The utilization of nonbudget funds must be guided positively toward producing goods that are in short supply and toward the most urgently needed production and construction. To this end, it is necessary to make positive use of the economic lever in levying a tax on the nonbudget funds being used in capital construction. In addition, it is also necessary to give play to the bank's role in management and supervision in order to see to it that the non-budget funds are being used properly.

(5) Steps must be taken to check up on the nonbudget funds in coordination with enterprise consolidation and to limit strictly the scope of nonbudget funds. The power to define the scope and projects of nonbudget funds should rest with the State Council and the departments authorized by the State Council. Without authorization no enterprises, units or departments may enlarge the fee-collecting projects and set standards at will nor can they apportion or increase costs and intercept and hold up profits at will to undermine the state financial revenue. At the same time, legislation must be introduced as soon as possible to control the nonbudget funds; and regulations governing the establishment and utilization of various types of special funds must also be formulated so as to provide laws for enforcement.

12662

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FINANCE AND BANKING

QINGHAI PEOPLE'S BANK TO CHANGE CONTROLS ON LOANS

HK150944 Xining Qinghai Provincial Service in Mandarin 1100 GMT 13 Dec 84

[Text] The provincial people's bank decided to enforce new regulations on control of credit loans beginning 1 January next year, so as to meet the needs of restructuring the urban economy.

After reforming the credit loans management system, the provincial people's bank will adopt such methods as unified planning, sharing funds, [words indistinct], and assisting each other, in the control over credit loans at all professional banks.

Through this reform, the funds of all commercial banks will be separated, and they will help each in their business operations, do independent accounting, and set up combined systems for their funds settlement.

Dealings in funds between commercial banks and people's banks and [words indistinct] will basically resolve the problem of differences between supply and demand in the control over credit loans and the problem of eating out of the same big pot. They will not only strengthen the function of central banks, but will also facilitate professional banks in their independent business operations, thus enlivening finance.

In order to unleash the initiative of grassroots units of industrial and commercial banks in their independent business operations and meet the needs of granting loans to enliven technological innovation, the provincial people's bank decided to expand the limits of grassroots units power in examining and approving credit loans.

Beginning on 1 January 1985, a loan of less than 300,000 yuan will be examined and approved by town and urban offices of county branch banks; a loan between 300,000 yuan and 1 million yuan will be examined and approved by the Xining city branch and the central branch office; a loan over 1 million yuan will be examined and approved by the provincial branch office. In handling loans for technological innovation, [words indistinct]. However, whether the loan is granted upon request or the loan is assigned according to a plan, they can be used to regulate each other. As for excessive funds raised by localities, they can be released as loans for technological innovation.

CSO: 4006/181

MINERAL RESOURCES

BRIEFS

HENAN MANAGING MINERAL RESOURCES MEETING--The First Henan Provincial Conference on Management of Mineral Resources was held in Luoyang City at the end of November. Henan is relatively rich in mineral resources, ranking within the top 10 in the whole country in reserves of 31 minerals. Last April, the province saw the emergence of a craze for mining, with the state, the collectives, and the individuals all getting to work. More than 3,000 mines and mining points have already been opened up for extraction. The Provincial Mineral Resources Management Committee has decided to issue new mining licenses throughout the province beginning on 1 January. This will ensure consolidation and improvement of mass mining and raise the resource exploitation rate and extraction results to a new level. [Excerpt] [Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 13 Dec 84 HK]

CSO: 4006/181

INDUSTRY

GUANGDONG ACHIEVES HIGHER GROSS OUTPUT VALUE

Guangzhou NANFANG RIBAO in Chinese 6 Jul 84 p 1

[Article: "Guangdong Greets Rising Gross Value of Industrial Output, Revenue"]

[Text] In the first half of this year, Guangdong achieved growth in industrial output and in revenue, with a balanced development of light and heavy industries, thus bringing about greater economic results, registering corresponding increases in production, sales and profits and presenting an excellent situation that has been rare in recent years.

According to figures released by the Guangdong Provincial Statistical Bureau, the gross value of Guangdong's industrial output in the first half of this year was over 16.7 billion yuan, up by 12.7 percent over the same period last year. Light industry rose by 12.8 percent while heavy industry went up by 12.5 percent. A number of marketable products and heavy industrial products serving light industry made gains in output. For example, the production of electronic calculators tripled, that of television sets doubled, the output of home refrigerators also doubled, that of electric fans went up by 89.9 percent, that of beer rose by 88.6 percent, that of cameras by 87.7 percent and that of cassette recorders by 49.4 percent. What was particularly encouraging was that the sales of these products advanced rapidly and profits rose. It was estimated that the increased revenues from the sales of products from local and state-run industries and enterprises during the January-May period would be 0.9 percent greater than the gross value of industrial output. The profits realized amounting to 590 million yuan were 18.4 percent higher than the same period last year.

Guangdong's success in achieving such an impressive industrial output in the first half of this year was mainly due to the serious implementation of the party's policies and measures to enliven the economy as well as the various forms of reform undertaken in economic management, such as the promotion of various types of joint economic ventures and the innovative and flexible application of local funds, resources and materials and the enterprises' technologies. Second, by bringing in foreign capital and technology, a technical transformation of existing enterprises should be undertaken in order to raise their technological levels.

Furthermore, one of the reasons for industrial enterprises to increase their output and revenue is to strengthen market information, clear the marketing channels between provinces (cities) and special districts, employ various means of promoting sales and produce more marketable commodities.

12661

CSO: 4006/691

INDUSTRY

HEBEI'S INDUSTRIAL OUTPUT RISING

Shijiazhuang HEBEI RIBAO in Chinese 9 Jul 84 p 1

[Article: "Hebei's Industrial Output Yields Gratifying Results"]

[Text] In the first half of this year, Hebei brought in 13.65 billion yuan in terms of the gross value of industrial output, which is equal to 51.1 percent of the annual plan. More than half of the production task was thus completed in less than half the time required, registering a 14.3 percent rise over the same period in the preceding year. This surpassed the national growth level by 2.7 percent. The breakdown of the figures shows that the value of light industry output was up by 17.9 percent, an increase of 6.4 percent over the national level. Shijiazhuang, Zhangjiakou, Hengshui, Xingdan, Baoding, Langfang, Shijiazhuang and Gandan were among Hebei's 18 districts and municipalities which achieved higher growth percentages than the provincial levels.

Hebei achieved an increase of 13.9 percent in its estimated gross value of industrial output during the January-May period over the same period of the preceding year, apart from bringing in an increase of 30.2 percent in profits, turning over to higher authorities 22 percent of the profits, reducing losses by 51.1 percent and turning losses into profits in excess of 6.1 percent.

12661

CSO: 4006/691

INDUSTRY

BRIEFS

NEI MONGGOL TV PRODUCTION--Hohhot, 23 Nov (XINHUA)--The first color television set assembly line built in areas inhabited by national minorities began operation today in Hohhot, Nei Monggol. The assembly line at the Nei Monggol TV Plant has a designed annual production capacity of 150,000 14-, 18-, and 20-inch color television sets. [Text] [Beijing XINHUA Domestic Service in Chinese 1401 GMT 23 Nov 84 OW]

HEILONGJIANG ELECTRONICS INDUSTRY DEVELOPMENT--One of the best situation in the electronics industry ever known in Heilongjiang Province has emerged in 1984. In the January-October period of 1984, the province's total electronics industrial output value increased by 24.8 percent over the corresponding period of 1983 and the profits earned by the electronics industrial departments increased by more than 9 million yuan over the same 1983 period. [Excerpt] [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 3 Dec 84 SK]

SHANDONG CHEMICAL INDUSTRIAL PRODUCTION--Shandong Province has prefulfilled the 1984 chemical industrial production plan. From January to November, the total industrial output value reached 3.63 billion yuan, overfulfilling the annual plan by 3.1 percent, an increase of 9.1 percent over the best year, 1983. Comparing the first 11 months of 1984 with the same period of 1983, 92.3 percent of the chemical industrial products improved in quality, the consumption of standard coal for producing 10,000 yuan worth of products was reduced by 6.7 percent, profits increased by 15.8 percent, and profits and taxes handed over to the state increased by 9.6 percent. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 4 Dec 84 SK]

CSO: 4013/61

CONSTRUCTION

BUILDING FIRMS ADVOCATE JOINT OPERATION

Beijing GUANGMING RIBAO 25 Jul p 1

[Article: "Jiangsu Construction Companies Adopt Joint Operation"]

[Text] Three construction contingents in Jiangsu Province, formed by all the people as well as by big and small collectives in a pyramid structure, have practiced joint operation in a move to establish a new construction system, thus greatly improving its multipurpose production capacity.

Jiangsu's construction industry owned by all the people is better equipped technologically while the big collectives are also capable of handling construction jobs. As for the construction labor force available in the villages and towns, it offers abundant resources. By the time the three huge construction contingents which are in a position to emphasize their respective strong points take to joint operation of their own free will and according to the principles of facilitating production and being mutually profitable, they will have worked out many joint operation forms.

The first form involves joint contracting for construction projects by enterprises operated by all the people and collective units, with the two sides joining forces on an equal footing, sharing benefits, promoting strong points and avoiding shortcomings. The former generally provides administrative and technical personnel, capital and equipment while the latter units mainly supply construction brigades. By carrying out this kind of joint operation last year, Xuzhou municipality, completed 6.2 percent more building projects than it did the preceding year.

The second type involves joint contracting for jobs by individual enterprises. This is mainly undertaken by individual counties which organize rural collectives into a jointly operated construction company for exclusive handling of all contract jobs and separate accounting. For example, Ganjiang and Jiantong Counties jointly contracted for the construction of the dormitories of the Nanjing Chemical Company. While the buildings were under construction, several construction brigades pooled their efforts and supported each other in the competitions. As a result, the two residential blocks, one occupying 30,000 square meters and the other 40,000 square meters, were judged for their architectural excellence among buildings in Nanjing municipality.

The third type involves a joint operation of a regional nature. This calls for the grouping of professionally competent construction brigades within a certain region and the dispatch of these selected groups to other provinces or abroad for construction jobs. Over 150,000 construction workers, in different groups, have left Jiangsu Province for other provinces or abroad. In China, they have visited 24 provinces, municipalities and autonomous regions, completing last year 6,380,000 square meters in area.

Abroad, Jiangsu's construction contingents have undertaken construction jobs in faraway countries like Iraq, Kuwait and Jordan. The joint operation form yields superior results. In Jiangsu alone, two major residential projects, one comprising 110,000 square meters and the other over 200,000 square meters, were completed in 10 months. Outside Jiangsu, for example, the two 24-story buildings in Shenjun were completed in 168 days, averaging 7 days for each floor, with the quality and safety of construction and the achievement of time limits scoring high marks.

12661

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CONSTRUCTION

GUANGMING RIBAO WRITES ON SCENES AT TANGSHAN

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[Newsletter by Reporter Liu Xieyang [0491 3610 7122] and correspondent Zhang Guoxin [1728 0948 0207]: "Glimpses of Tangshan"]

[Text] Inhabitants Move Into New Houses

Walking along the streets of Tangshan, one is attracted by the vehicles big and small, coming and going for moving house. According to the statistics of departments concerned, between September and October, more than 200 households moved into new houses each day on average.

It has been 8 years since the Tangshan earthquake took place. However, up till early 1983, more than 80,000 households were still living in sheds which were low and damp. These not only occupied a large area of construction ground, but affected the appearance of the city. In a talk on demolishing and moving the sheds along the Tangshan railway line, Comrade Hu Yaobang pointed out in May 1984 that it was necessary to step up the pace in building residential houses, so as to solve the housing problem of the masses as quickly as possible. The newly readjusted city CPC committee leading body has taken a grasp of the matter in earnest. The city CPC committee organs took the lead in allowing other units which had occupied houses owned by citizens to move into the new city CPC committee office building, while they themselves remain in simple and crude bungalows to handle their routine work. With regard to unhealthy tendencies in housing problems, the city CPC committee has dealt with those cases seriously, issuing orders to 19 cadres who are CPC members to move out of the new houses which they had occupied irrationally, while giving individual leading cadres who had abused power for personal gains the punishment of grave warning within the party. At the same time, deadlines for completion of building projects have been reaffirmed among the building trade citywide, and letters of responsibilities have been signed, those units which complete the projects ahead of schedule will be rewarded, and those which fail to make the deadline for completion will be punished according to the stipulations in the letters of responsibilities. Decisive measures have also been adopted against those households who stubbornly refused to demolish and move out of their sheds. Over the past 2 months, the floorspace completed in the whole city has grown by more than 60 percent over the same period in 1983.

Renovation in Revival

Tangshan is always known as the "northern capital of porcelain." How would it be possible to make this "northern capital of porcelain" radiate its youth gain after the earthquake. Over the past few years, the Tangshan pottery and porcelain company has actively revived traditional products of pottery and porcelain on the one hand, and transformed the existing installation in a big way on the other, and blazed new trails in developing new varieties. They have imported advanced installations from foreign countries, and newly built 26 conveyer systems in tunnel kilns; as a result, both the quantity and quality of products have been greatly improved. New colors, engraved patterns, and the technique of color-spraying are known as the three peaks in the pottery and porcelain industry. In 1983, the number of porcelain utensils produced by this company amounted to more than 10 million pieces, of which more than 2 million pieces are for export. This far surpassed the level before the earthquake.

There are more than 250 old enterprises in Tangshan. Since the recovery of production, most of them have undergone technological transformation. The city has spent more than 23 million yuan on investment since 1980, with 839 projects of technological transformation completed and many of the features of the factories changed.

Prawn Farm Along the Beach

Tangshan has Yanshan at its back in the north, and is facing Bo Hai in the south; it has a large area of beach for aquiculture. In 1983, the peasants along the coast raised prawns on an area of more than 90,000 mu, which yielded more than 700,000 jin of prawns. It is estimated that the acreage for prawn breeding in 1985 will grow by 10 times that of 1984.

In early winter, when the reporters came to Heiyuanzhi prawn farm on the coast, peasants were seen digging ditches, and building dykes and prawn breeding ponds along the way. The car ran a distance of 100 li, and one prawn pond after another could be seen as we drove along.

This prawn farm came into being only last spring. In the past, the beach along the coast was looked upon as a burden, and had never been exploited. In 1984, a woman commune member took the lead in contracting 1,000 mu of beach, and pioneered prawn breeding, which brought her an annual income of several thousand yuan. This has soon caught on. With the support of the local government, other peasants have also signed contracts on prawn breeding, and the once waste beach with an area of thousands of mu has been turned into a nice place for breeding prawns.

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FOREIGN TRADE AND INVESTMENT

FUTURE SINO-EUROPEAN ECONOMIC RELATIONSHIPS

Beijing LIAOWANG [OUTLOOK] in Chinese No 31, 30 Jul 84 pp 16-19

[Article by Ying Hong [2019 7703] in Brussels, Yang Qi [2799 6386] in Paris, Wu Ping [0702 1627] in Stuttgart, Huang Changrui [7806 2490 3843] in Rome: "'We Have Faith in China's Future'--Western European Businessmen Discuss Prospects for Mutual Cooperation Between China and Western Europe"]

[Text] Editor's note: During Premier Zhao Ziyang's visit to six European countries in May and June, he made extensive contacts with businessmen of these nations, further setting forth our policy of opening to the outside and pointing out that it may be said that there is great potential for developing economic and technical cooperation between China and Western Europe. Our special correspondents in Brussels, Paris, Stuttgart and Rome recently called on several businessmen who spoke about their views on Premier Zhao's visit to promote mutual cooperation and the good prospects for economic and technical cooperation between these countries and China.

Belgium: Willing To Build a "Bridgehead" for China in Europe

During his formal friendship visit to Belgium, Premier Zhao Ziyang often pointed out that in recent years Belgium has occupied a leading position in Sino-Western European economic and technical interchange. He sincerely hoped that Belgium would continue to preserve this distinction and not fall behind.

Premier Zhao's hopes have been realized today via the efforts of both countries. Belgian Business Confederation chairman, Mr (Laisen), enthusiastically endorsed the development of Sino-Belgian cooperation, and when he recently met with reporters he spoke of future efforts along these lines.

In speaking of the wonderful time he and Premier Zhao had at the Belgian Business Confederation, (Laisen) excitedly said, "The many Belgian businesses having dealings with China were all grateful for having this opportunity to meet Premier Zhao Ziyang and his delegation at the confederation's meeting." He said, "This kind of direct contact is very necessary; the direction of all kinds of cooperative projects can be decided from it and brought into a high-priority category in Sino-Belgian relations." He continued, "The Chinese premier's spirit, the attitude he holds toward opening to the outside world and the resoluteness of his desire to carry out economic cooperation with various European countries have given us a lasting impression. Due to this extremely important visit, we believe that politically speaking, Europe and China can have a role in facing the superpower challenge to the world. Economically speaking, the fine Sino-European cooperation will be developed hereafter."

Sino-Belgian cooperative relations are not only trade-related but are also industrial and technical, and they have all had considerable development. (Laisen) informed us that many cooperative projects have begun from both countries' sincere desire for cooperation. Two Sino-Belgian joint companies have been established in Belgium; one is a sea transport company and the other is a Belgian firm marketing Chinese coal. He also said four Belgian companies will soon begin operations in Beijing. With regard to technological transfers, (Laisen) said, "We are mostly looking into agricultural technology and the rational use of energy and hydropower resources. In these areas Belgium has special conditions to help China develop."

Premier Zhao announced when visiting the Belgian Business Confederation's meeting, "China's policy of opening to the outside is firm, and hereafter will not be restrained but will continue. China's gates are forever open toward Europe, especially Belgium." When (Laisen) said this, Belgian businessmen were very much encouraged, making them "feel a personal obligation toward Europe, to serve as China's bridgehead in Europe."

(Laisen) said with full confidence, "China is a great country and it values practicality as does Belgium. Future cooperation questions should be viewed in this spirit. Many Belgian companies are now seeking new areas of cooperation with China. Attention has been drawn to the following areas: nonferrous metals (especially diamonds), municipal transportation, capital construction and nuclear energy. As for port construction, Belgium has great ports like Antwerp, and so it especially can share experiences with China."

(Laisen) stressed that China valued cooperation with the European Economic Community. "Belgium in many senses is the capital of Europe and is the center of trade with China. The EEC is willing to develop cooperation with the developing countries, and several products of both the developing countries and China can enjoy generalized preferential tariff treatment in the European market and can directly compete."

Belgium as a member of the EEC refuses to adopt a trade policy of empty talk but favors support of reasonable proposals."

France: Sino-French Cooperation: "The Situation Is in Flux"

During this reporter's recent visit, Mr (Deqiaozhi) energetically stated that he had complete faith in the future of Sino-French economic cooperation.

These were not merely polite words but were spoken from experience. (Deqiaozhi) is the chairman of the board and vice president of the large French firm of (Althusser). This is one of the largest firms in France and is famous in the industrial equipment export business. (Althusser) has a 25-year history of doing business with China. He said, "In French industry, we are the oldest and largest business partner with China."

After pointing out that Sino-French economic cooperation cannot keep pace with the development of political relations, (Deqiaozhi) said happily, "Things are really changing rapidly. Due to the efforts of both countries' leaders, the speed of development of bilateral economic relations has increased."

Last year when President Mitterand visited China, China and France signed four memorandums concerning electronics, telecommunications, grain and transport. Mr (Deqiaozhi) visited China early this year and saw Vice Premier Li Peng. He subsequently attended the reception for Premier Zhao Ziyang and French businessmen in Paris.

Mr (Deqiaozhi) believes Premier Zhao's visit clearly indicated the reality of progress in Sino-French economic cooperation. He said, "Everything has changed. Europeans were still a little afraid in the past, especially small and medium businessmen, who believe Japan is close to China and has an even better position and so were over-cautious. This kind of worry will gradually disappear. I dare say Europeans will catch up."

The (Althusser) company manufactures a series of advanced products, from machinery to ships, from railroad transport equipment to electrical machinery and power stations equipment. (Deqiaozhi) took it as an honor that when Zhao Ziyang visited a French nuclear power stations, rode a high-speed train and an automated subway, they all carried the (Althusser) seal. He said we have "great expectations" for nuclear power cooperation with China.

(Deqiaozhi) stressed that the development of nuclear power is an inevitable trend. Coal, oil and other mineral energy resources have many drawbacks, but the development of nuclear power can raise a country's industrial level. With this kind of future, (Deqiaozhi) speculated that China and France can cooperate on nuclear power,

jointly produce nuclear power equipment and export it to the world market. Nuclear cooperation requires large amounts of funds, and doing it together will benefit both sides. Such cooperation must be long term, for at least 20 years.

This reporter chipped in, "This kind of conclusion can be drawn from your talk: cooperation requires a broad and long-term view."

(Deqiaozhi) replied, "Right, but it can be achieved only by establishing relations of trust."

He said, "Sincerity, trust and friendship are the most important factors for long-term cooperation. For the past 20 years, China's foreign trade has risen and fallen because of political and economic reasons. Under any circumstances, none of our companies has been shaken because we have faith in China's future. We see that when foreign partners gain the trust of the Chinese, the latter become loyal clients. Developing mutually trusting relations is very difficult in some countries, but not in China. Second, experience strengthens mutual understanding. You have to see and talk more and not be limited to carrying out contracts. We do big business, not soup spoons and ashtrays, so mutual understanding is really important. Third, we support technology transfers; we believe they are part of doing business."

He reflected on the fact that since 1958 (Althusser) has supplied to China over 100 electric and diesel locomotives, many transformer stations, several hundred large-scale automatic switches and thermal power station equipment. During this year's visit to China, Vice Premier Li Peng and he expressed satisfaction with the above results and expressed the identical view that the future for cooperation is bright.

Northern Europe: Has a "Special Interest" in China

In speaking of the future of cooperation with China, when reporters recently contacted the Norwegian National Oil Company, Swedish Atlas-(Kepuke) and General Electric, the leaders of these companies all believed that China is a giant market and that developing economic cooperation with China is one of their established policies. Up to now these companies all have a firm basis for economic cooperation with China. They indicated they wanted to continue to develop this friendly cooperation energetically.

Since 1979 the Norwegian National Oil Company has provided consulting services for the development of China's offshore oil and has trained many technical personnel. This firm's public relations man, (Hakong Laweike), said that the next step for the company was direct participation in China's offshore oil and natural gas production. On his visit to Norway Premier Zhao once again sent an invitation to the company. They are also striving to gain the Norwegian government's

agreement to their application for participation in China's efforts to exploit offshore oil and gas. This fall the company will send people to Beijing to hold talks about concrete plans for activities related to China.

The Atlas(-Kepuke) Company and General Electric are Sweden's two largest companies trading with China, known for excavation and exploratory equipment and electrical equipment, respectively.

In the 1950s the Atlas (-Kepuke) Company had already begun supplying China with its products. In 1963 it held a coal excavating equipment show in Beijing, and last year it opened an office and a store selling spare parts there. In March of this year they signed two agreements in Beijing and Tianjin to transfer the company's compressor technology. Before this they had signed two technology transfer agreements with our country to build an excavation machinery plant in Nanjing and to help a Shenyang factory renovate. The equipment division manager, (Gesita Fensitelun), said the company was increasingly interested in China's great potential market. He believes that over 3,000 of his company's products can satisfy the needs of China's present energetic building of hydroelectric plants, railroads, coal mines and ports.

The General Electric manager for the China area, Hans (Danneidun), indicated that his company had great hopes of large-scale cooperation with China. The company is preparing to increase its office personnel in Beijing so as to augment their understanding of the China market. When this reporter asked what the most competitive equipment was that GE could supply to China, this regional manager, who has been to China many times, said that electrical generation, transmission and distribution equipment were the hottest-selling products it could supply. He said that at present, besides bidding for construction of a direct-current high-tension transmission line project from the Gezhou Plain to Shanghai, they are also planning to cooperate with Norway to supply equipment to the Lubuge hydroelectric power project in Yunnan.

When we talked about which formula best suited Sino-Swedish economic and technological cooperation, the above-mentioned managers both preferred the technology transfer cooperation formula and believed it to be the most simple, convenient and beneficial to both parties. The second commercial and economic section chief in Denmark's Ministry of Foreign Affairs, (Ao'er Keci), recently told this reporter that people in Denmark generally believe Premier Zhao Ziyang's visit initiated close cooperation in new areas for Denmark and China.

He said China's establishment of the four modernizations and implementation of the policy of opening to the outside has created "particular interest" in Denmark for trade and cooperation with China. The interest in China generated by Premier Zhao in the Danish economic world is greater than that of any previous visitor to Denmark.

He also said that the Danish government and business world were extremely interested in the possibilities for foreign companies to export, invest and create joint ventures in China, as introduced by Premier Zhao.

He said after Premier Zhao's visit, businessmen never stopped calling the Foreign Ministry to ask about economic and technical cooperation with China.

In the past several years, development of Sino-Danish trade and technical cooperation has been rapid and the forms have been flexible. This year, even more positive trends have been seen in contacts between the two countries. According to Danish statistics, in the first 4 months of this year Denmark imported 883 million Danish kroner of Chinese goods (including entrepot trade). It exported 215 million kroner of Danish goods to China. At the Sino-Danish Industrial and Economic Cooperation Commission's meeting this May, the Danish side proposed 50 economic and technical cooperation projects. This entirely accords with what the Danish foreign minister recently said in a speech, that Premier Zhao's visit brought Sino-Danish relations to a new level of development.

Italy: Prospects for Cooperation Are Excellent

Reporters recently visited Italy's largest industrial and commercial city, Milan. In speaking about Premier Zhao's visit to Italy, several Italian businessmen pointed out that this visit increased mutual understanding and will promote Sino-Italian economic and technical cooperation.

In the Milan headquarters of (Monte Edison), the company's international affairs director, (Jean Luigi Diaz), explained to this reporter that (Monte Edison) has had good relations with China for many years. In 1983 it exported to China the value of 137 billion lira, accounting for 34 percent of the total output value of Italian exports to China. In the first 5 months of this year, (Monte Edison's) exports to China reached 74 billion lira, accounting for 40 percent of Italy's exports to China. He said Premier Zhao's visit here, his meeting with Italian economic leaders and his announcement that a Chinese consulate general would be established in Milan will all promote the two countries' economic and technical relations. He believes the Chinese premier's visit will further open the Chinese market. He said, "Even though there are still difficulties on the path of cooperation, we understand them. China imports (Monte Edison's) chemical fertilizers, plastics, medicines and instruments. We believe China needs technology even more and will one day produce these goods by itself. We are willing to supply technology and equipment and to have joint ventures. (Monte Edison's) pharmaceutical production technology is rather advanced. We can also cooperate with China in agricultural product processing, the foodstuff industries and commodity circulation. We can also discuss the possibilities for cooperation in China's technological

transformation of old factories and its stress on economizing energy resources." He also said, "Our potential for cooperation with China is very great and the prospects for mutual cooperation are very good."

The director of the company's China business section, Mr. (Kennedy), said a few days ago (Monte Edison) signed an agreement with China to supply printing and dyeing technology and equipment to a Jilin chemical industry plant. Although the transaction was for only \$1 million, nonetheless it was a good omen. He also said that within the next few years they will seriously discuss a series of plans for cooperation with Chinese technical personnel.

Since last year the Italian Factory Equipment Design Company has signed agreements to set up by joint investment tanneries and shoe factories with the relevant departments in Wanxian in Sichuan and Hefei, Anhui and Ningpo in Zhejiang. This company's administrative director, Mark (Zulaini), told reporters that Italy's tannery and shoe techniques and equipment are the best in the world. Production of Italian leather shoes has reached 500 million pairs, 70 percent of which are exported, at a value of \$3 billion. The Italian Factory Equipment Design Company specializes in supplying technology and equipment for tanning, shoes, chromium reclamation from waste water and tannery waste methane production via joint ventures, compensatory trade or other cooperative methods. He believes China has an abundance of pig skin; there are bright prospects for cooperation. On 11 July, this company signed a memorandum with the Nanning, Guangxi, Leatherworks to cooperate via compensatory trade.

(Luoke), (Pirelli's) news director, said the company has the world's best electric cable technology, especially for deep-sea cable production. It is a leader in European tire production and has years of experience cooperating with the Third World. He believes the prospects for his company in cooperating with China are definitely good.

The leaders of the Italian Machine Tool Manufacturing Companies Association (153 member machine tool manufacturers accounting for over 80 percent of the country's production), the (Samei) Tractor Manufacturing Plant and others also believe prospects for cooperation with China are good. The (Samei) plant is very interested in technological transformers with Linfen, Shanxi Tractor Engine Works and Yuncheng's Tractor Plant.

At the Sino-Italian Trade Chamber of Commerce, the chairman, (Bertilino Bolumbo), told reporters during Premier Zhao Ziyang's visit to Europe that he continually stressed China's policy of opening to the outside, this point being "very important." It is natural that China would open to all countries, but "I believe Italy's technology and industry can play a big role in China's modernization and economic construction."

He said that China's transformation of 40,000 enterprises no doubt will need technology, equipment and management methods supplied by Italy. Lately, enterprise managers from both countries have strengthened contacts, and "Zhao Ziyang's visit was beneficial in strengthening such ties."

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FOREIGN TRADE AND INVESTMENT

ISSUES AND OBJECTIVES IN CHINA'S TRADE WITH FRG

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 8, 27 Aug 84 pp 3-5

/Article by Wei Yuming /7614 3768 2494/, vice-minister of the Ministry of Foreign Economic Relations and Trade: "New Trends in the Unity of Importing Technology and Expanding Trade"--speech at FRG Conference on Industry and Commerce

/Text/ China has entered upon a new period of comprehensive development of socialist modernization; 1983 was the best year for China's economy since 1979. Gross output value for industry and agriculture reached 884.7 billion yuan, two years ahead of the target set for 1985 by the Sixth 5-year Plan. In the past 3 years, gross output value for industry and agriculture grew by an average of 7 percent per year, while grain yield grew by 5.4 million tons annually, and petroleum, coal, chemical fertilizer, rolled steel and cement and other major industrial and agricultural products all attained 1985 targets 2 years ahead of schedule.

In order to hasten its socialist modernization, China has implemented the policy of opening to the outside world, has vigorously developed its foreign trade, and has expanded foreign economic and technical interchange. This is China's firm and unswerving long-term strategy. China's foreign trade is steadily making new progress along with steady economic growth. In 1983, international economic conditions were not very good. A few Western nations' economies have begun to recover, but because economic growth is slow, demand on the world market is weak and international trade remains at a low level. In spite of this, China's foreign trade has still been able to score relatively good achievements. In 1983, China's foreign import and export trade amounted to \$40.14 billion, an increase of 2.2 percent over 1982. Of this, exports amounted to \$22 billion, an increase of 11.2 percent over 1982, while imports amounted to \$18.14 billion, a 21.4 percent increase. Utilization of foreign capital has made notable progress, as China has signed new loan agreements with Japan, Italy, Kuwait, Denmark, Malta, and the World Bank worth \$1.33 billion, plus direct investment agreements with foreign countries worth \$1.5 billion. And 105 Chinese-foreign joint venture enterprises have recently been approved, exceeding the sum total of the past several

years. By the end of 1983 there were 188 such enterprises in all; 424 new foreign engineering, labor, and service cooperative contracts were signed in the amount of \$910 million, 80 percent higher than the figure for 1982. The scope of China's trade with foreign countries will progressively expand and the realm of joint ventures will broaden in accordance with the demands of China's economic development.

We are happy to observe that since China and the Federal Republic of Germany /hereafter FRG/ established diplomatic relations in 1972, and along with the development of friendly relations, the two countries, trade and joint ventures have developed rapidly. FRG is China's fourth largest trading partner, after Japan, Hong Kong, and the United States, and the largest among Western European countries. In 1983, trade between China and FRG amounted to \$2.07 billion, which represents a 7.6 fold increase over 1982; of this, China's imports amounted to \$1.25 billion, her exports \$820 million. FRG is one of the countries that sells China technical equipment, rolled steel, chemical products, and other major supplies. At the same time, FRG is an important market for China's exports of chemical products, local produce and animal by-products, textile goods, handicraft products, and other commodities. Since implementation of the policy of opening to the outside world, China and FRG have adopted ever more flexible approaches to trade and economic and technical cooperation, and contacts between the two have increased. In recent years, enterprises from both countries have reached agreements on several hundred joint projects of various types and forms involving trade of technology, including joint production, joint management, compensatory trade, and processing of imported materials. In the past 5 years, China has signed over 200 contracts making use of foreign exchange to import technical items from 22 countries and regions in an amount exceeding \$1 billion, which makes China second only to Japan as an importer of technology.

One desirable form of economic and technical cooperation that China and FRG have developed in recent years is production technology. China has a certain processing capability and level of technical competence, while FRG has advanced technology. Joint production would have a significant impact on the development of both countries' trade and on strengthening their competitiveness in the world market. As for joint ventures, although there has been a certain degree of development, progress on both sides has been slow. Right now there is only one such project, the Tianjin Liming Cosmetic Joint Management Corporation approved and established by the (wei-la) /1218 2139/ Corp of FRG and the Household Chemical Products Factory No 1 of Tianjin. For the past 3 years, the joint management of both sides have been satisfied with the results of economic management of this corporation. At present, the Volkswagen Corp and the Shanghai Tractor and Automobile Corp are discussing joint economic management to produce the "Sang-ta-nuo" /2718 1044 1226/ compact car. We are looking forward to an agreement being reached on this project as soon as possible. Labor

and service cooperation is a new type of business developed by the two countries in recent years. We hope to steadily strengthen this area of cooperation, and moreover to expand it to include separate contracts for installation and operation of equipment. We truly appreciate these significant efforts made by FRG to provide China with technical aid and training of personnel. Another recent noteworthy development that is very gratifying is one-to-one cooperation between FRG states and PRC provinces. Liaoning, Jiangsu, Anhui, Shandong, and other provinces have set up one-to-one cooperative relationships with Hessen, Baden-Wurttemberg, Bavaria and North Rhine-Westphalia, Rhineland-Palatinate and Lower Saxony. Both sides already have a number of medium and small joint projects in the world. All of this is conducive to cooperation between medium and small enterprises of both countries. In sum, economic and trade cooperation between China and FRG is healthy and has achieved abundant success.

We are not satisfied, however, with the existing level of economic and trade cooperation. Each side still must constantly deepen its understanding of the other so as to overcome existing problems. For example, some entrepreneurs want to sell only their products but are unwilling to turn over the technology, concerned that it cannot be protected or that China could become a competitor and cause them to lose their market in China. Some are also subject to the control of the Paris Plan Committee. We think that these misgivings are unfounded. China has recently announced new patent laws and on 1 April 1985 a patent system will go into effect. Until then, transfer of technology will be prescribed and confirmed by contract. Years of practice have proven that Chinese enterprises conscientiously honor important contracts. And concerns over China becoming a competitor are even more unfounded, for China's market is vast, and the primary purpose of importing technology is to meet the demands of our domestic market. It takes China 3 to 5 years at the least to go from technology importation to manufacture, and by the time the product is sold, new technology and products will have appeared. Therefore, whether a product is exported or not, new technology cannot be measured, and regardless of whether a product is advanced or conforms to market demand, it will not be produced in great quantities. Thus, a farsighted and wise entrepreneur would not harbor this kind of anxiety.

Judging from the response of Chinese consumers, the quality and reputation of FRG technology and products are high, but more often than not their prices are higher than other countries'. We wonder if your country could not score success not only through quality but also through the pricing of its products and technology. Then we could encourage Chinese enterprises to buy even more FRG products and technology and expand trade on the basis of equality and mutual benefit. At the same time we should adopt a variety of flexible forms of cooperation and avoid concentrating on just one licensed form. We invite more FRG firms to make direct investments in China, to set up joint enterprises with Chinese firms or to set up wholly-owned enterprises. It is my belief that through the concerted efforts of both sides, we will definitely achieve good results.

The excellent state of China's industrial and agricultural production offers a rich material base for the development of foreign trade. Concentrating our efforts on the development of energy, communications, and transportation, and methodically transforming existing enterprises are the two major strategic missions of China's economic construction. This will offer growing potential for greatly expanding foreign trade, absorbing foreign capital, and importing technology. China plans to construct a great quantity of new, large-scale key projects within the next 7 years, such as the second phase of the Bao-gang project, a communications and broadcasting satellite, nuclear power plants, large-scale coal mining, offshore oil development, large-scale electric power plants, and transportation and communications projects. At the same time we must carry out technical renovation of several hundred thousand old enterprises. China had planned by the end of the Sixth 5-year Plan, i.e., 1985, to deal with 3,000 such national enterprises. At present, several hundred have been completed, 1,000 more have been scheduled for 1984, and another 1,500 for 1985. These figures do not include enterprise renovation projects carried out independently at the local level. A relatively large proportion of these major projects just mentioned will come to fruition by utilizing foreign capital, importing technology, and through foreign trade.

We stress the development of relations with the European community /Ouzhou gongtongti 2962 3166 0364 0681 7555/ and with FRG, and we are exceedingly confident concerning the prospects for trade and economic and technical cooperation between the two countries. Consequently we hope to strengthen cooperation in the following areas.

1. Expansion of bilateral trade: Last year, China's exports to FRG reached an all-time high. We are most pleased to observe that chemical products have replaced local produce and animal by-products as the largest category of Chinese exports to FRG. This development should be beneficial to the economies of both countries for years to come. It also demonstrates the potential for augmenting economic exchange between them. I particularly wish to reiterate that in the area of foreign trade, China will henceforth adhere to the principle of combining technology importation with expansion of trade.
2. Strengthening production and technical cooperation: Combining trade of technology with joint production has become the new trend in the development of China's economic and trade cooperation with other countries. In just the first quarter of this year, China and FRG concluded 20 contracts, worth over \$60 million. On this visit we have brought with us several dozen cooperative projects, and we intend to explore their possibilities together with FRG entrepreneurs. A list of projects has been given to FRG economic departments and the Oriental Committee. In addition to projects already discussed, there is also a large number of new projects that we invite you to choose from. The specialists in our delegation will hold in-depth talks with joint

enterprises that have similar interests. After our visit to FRG there will follow a nonferrous metallurgy team and other groups in succession, in search of more opportunities for cooperation.

3. Participate in more direct investment, start up Chinese-foreign joint ventures, cooperative enterprises, and joint exploration and development of offshore oil, and start up wholly-owned enterprises: There are now more than 2,000 enterprises in China that are absorbing direct foreign investment. According to the terms of agreements, foreign firms have contracted for investments totalling \$6.7 billion, of which \$2.6 billion has already been absorbed. The great majority of these enterprises have already begun operation and opened for business, and their economic results appear to be quite good. In June 1983 China convened the first national working conference on utilizing foreign capital, thus taking a step in further relaxing policies. In September China made public "Provisions for Enforcing the Laws Governing Chinese-Foreign Joint Ventures," which clearly spell out regulations concerning joint venture tax revenues, prices, administration, wages for labor, the market, and so on. The main content of the "Provision" is: Joint ventures are exempt from taxes for the first year; whereas taxes formerly were reduced by one-half the second year, tax exemption now extends to the second year; taxes are reduced by one-half for the third year, and the unified tax on industry and commerce is lowered; restrictions on the importation of machinery, equipment, and raw materials and on the export of goods have been relaxed; a portion of the domestic market is reserved for the products of Chinese-foreign joint ventures; the share of the domestic market will be enlarged according to the degree of sophistication of technology and equipment offered by foreign merchants and according to China's demand for products; some products may even be granted priority status on the domestic market; and the independent power of Chinese-foreign joint ventures is guaranteed.

The laws and regulations governing Chinese involvement in foreign economies are constantly being updated. Laws are currently being formulated for Chinese-foreign joint ventures, cooperative enterprises, and foreign trade. Last year China and FRG signed an agreement for protection of investments, and the two countries currently are discussing the signing of an agreement whereby each would refrain from imposing heavy taxes on the other. All of these have created an excellent investment environment in China for your country's entrepreneurs. In recent years China's leaders have stated on a variety of occasions and have reiterated many times that the policy of opening up to the outside is not coming to an end but rather will continue to be relaxed even further. In June of 1984 the Chinese Government decided to open up 14 coastal cities from Dalian in the north to Beihai in the South. Thus we invite your country's entrepreneurs to come to China to invest. The key industries in China that we especially invite investment in our extraction are smelting of non-ferrous metals and rare metals, new construction materials, and electronics.

I am confident that along with the steady development of friendly relations and mutual understanding between both countries, their economic and technical cooperation and trade will take on a new look.

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FOREIGN TRADE AND INVESTMENT

EFFECTS OF SINO-FOREIGN JOINT VENTURES ON FOREIGN TRADE DEVELOPMENT

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 6, 27 Jun 84 pp 9-12

/Article by Shao Wangyu /6730 2598 0056/: "Actively Set up Sino-Foreign Joint Ventures, Promote Development of Foreign Economic Trade"/

/Text/ An important tendency in the development of a world economy since World War II is that production and capital have become increasingly internationalized and the degree of interdependency among countries has increased. Therefore, implementing an economy open to foreign countries and developing foreign economic and trade relationships are state policies common to all countries right now.

On the basis of independence, autonomy and self-reliance, the active and rational utilization of foreign funds, the development of foreign trade and the introduction of appropriate advanced technology and scientific management methods are of strategic importance to speeding up the construction of our socialist modernization.

This article will be concerned mainly with the utilization of direct foreign investments and in particular with development questions concerning the establishment of Sino-foreign joint ventures toward promoting our foreign economic trade. Here are several cursory opinions.

I. Main Direction and Reasons for Contemporary International Capital Flow

Since the Second World War, the developed capitalist countries experienced periods of rapid development in the 1950's and 1960's. Beginning in the early 1970's, they entered a period of combined crises and stagflation. Although there was a recovery beginning at the end of 1982, it has been slow and lack-luster, and these countries still have large amounts of surplus capital and equipment. For a relatively long time, in order to meet the needs of changes in their own economic structures, some labor-intensive and energy-consuming traditional industries and technologies--and sometimes this even includes certain business technologies that are rather advanced--have been transferred to the developing countries via monopolies and transnational corporations. Moreover, this trend is even more prevalent among the developed countries. Therefore, the capital flow range is broad and the tendency is still toward a continuous increase. Only considering direct foreign investments that the world has absorbed, in 1960 there were only \$75 billion; in 1983 this increased to \$580 billion, a 673 percent increase.

In the past 20 years, foreign funds have increased faster in the developed countries than in the developing ones. Among the chief capital-exporting countries, except for France and Japan, the proportion invested in the developing countries has gradually decreased. In 1980, the proportion of foreign funds absorbed by developing countries dropped to 27 percent. In particular, the African nations accounted for only five percent of direct foreign investments from the West. Furthermore, in the 10-year period from 1971 to 1980, the average annual increase for the developed countries was 12.5 percent. Considering the present situation, there are a relatively large number of investments among the European countries, and Japanese investments in Europe are increasing day by day. Looking at the United States, where the yearly net capital export figure has been about one-half of the world figure since World War II, in 1950, about one-half of private foreign investment was in the developed capitalist countries and the other half in the developing countries (mainly Latin America). By 1978, direct investments in the developed capitalist countries had risen to more than two-thirds of the direct foreign investment sum, of which Western Europe reached \$69.7 billion. Since the war, direct U.S. investments in Australia have increased particularly quickly. The increase rate of direct investments has also been rapid in those Asian and Pacific countries and regions where resources are abundant and labor prices cheap and they are generally suitable to the development of industry. In 1977 the sum reached \$6.3 billion; compared to \$300 million in 1950, that was a 20-fold increase. As for England, in second place worldwide in terms of capital exports since the war, its private direct foreign investments--the major part of capital exports--have been even more concentrated in the developed countries of Europe and North America while the investment figure in the developing countries has been rapidly falling.

From the changing situation noted above, the direction of capital in direct foreign investments can be seen quite clearly, and this has an extremely intimate relationship with the factors below.

First, political stability in the country of investment. The first question looked at by foreign investors is whether a country's political situation is stable. It is relatively safe to invest in Western European countries due to the fact that their political situations are stable. Therefore, direct foreign investments are increasing daily.

Second, the completeness of the legal system in the country of investment. It is necessary that foreign economic laws and regulations be complete to encourage the zeal of investors and make foreign investors feel that there are laws that can be followed and rules that can be abided by and that investments are safely guaranteed. Rule by law in Europe has a lengthy history and so the Europeans have an advantage in this regard.

Third, the basic facilities and technological conditions in the country of investment are relatively complete. To develop industry requires rather complete basic facilities such as transportation, ports, water supply, energy resources and telecommunications, allowing investors quickly to create productive power after investing. At the same time, it is essential that the technological base be relatively strong so that the newest industries can be developed.

Fourth, the openness of commodity sales markets in the country of investment. The goal of foreign investors is high profits. Profits can be obtained only by market sales. European countries have open markets and direct investments can avoid tariff bills. This is very attractive to investors.

Fifth, the availability of natural resources and a labor force in the country of investment. If the essential raw materials and cheap labor are supplied on the spot, production costs have to be lower, the competitiveness of goods strengthened and therefore relatively higher profits gained. Foreign investors are terribly interested in Latin America and the newly-industrialized countries of Asia for this reason.

In sum, factors in investment decisions are very complicated. Besides the above, other conditions must also be considered as favorable and suitable to investors, such as relevant tax policies, profit distribution, foreign exchange management, sales markets, etc.

II. Significance of Sino-foreign Joint Ventures in Development of Our Foreign Economic Trade

We have some of the important factors mentioned above to attract direct foreign investment. Currently our political situation is stable as never before, and there are peace and solid unity throughout the land. An important change has occurred in the economic development strategy of our country since the 3d Plenary Session of the 11th Party Central Committee, and it is particularly evident in our foreign economic relations. We have changed from being closed to being open to the outside world and this is a firm and permanent strategic principle of our country. In order to encourage foreign businessmen to invest directly in our country, beginning in July 1979, we successively promulgated the "Joint-venture Law for Enterprises Using Chinese and Foreign Investments" and other foreign economic regulations. We announced the "Implementing Regulations" not long ago. Their goal is to secure and protect the rights and interests of foreign investors by our laws and regulations. The basic installations at some of our old coastal and inland industrial bases are complete and construction of all the basic facilities is being intensified right now in the newly-opened special economic and development zones. Additionally, our country has advantageous natural conditions, the territory is vast, the resources are rich and plentiful and there is great potential. Domestic sales markets are open, there is an abundant work force and average wages are relatively low. It is completely obvious that the European countries cannot compare with us in certain areas. Therefore, it is certainly possible for us to attract a large amount of direct foreign investment.

What are the advantages of introducing foreign funds via Sino-foreign joint ventures toward the development of our state economy and, in particular, toward the development of the important link of promoting foreign economic trade? I believe that there are the following advantages:

1. We Can Expand Export, Our Commodity Production Capacity.

To realize the objective of our 20-year struggle, the development of foreign economic trade is an important link. The crux of developing foreign economic

trade lies in expanding the production capacity of export commodities. New export commodities can be developed and the production capacity of originally marketable commodities can be expanded by utilizing various forms, including Sino-foreign joint ventures to introduce foreign capital, in order to expand our export trade and provide a basis of goods and materials. In addition, by producing goods, materials and equipment needed domestically, the joint ventures provide import substitutes to the domestic market and savings on foreign exchange outlays.

2. We Can Introduce Advanced Foreign Technology and Equipment To Improve the Quality and Competitiveness of Export Commodities.

At present many plants in our country need upgraded equipment and technological transformation. For example, there is a glassworks in Shanghai that is still using the "vertical drawing techniques" of the 1930's to make plate glass. The quality, specifications, varieties and cost of the glass which is produced are unsuited to constructing modernization and to export needs. The newly-established Sino-British Shanghai (Yaohua-Pi-er-jin-dun) Glass Co, Ltd, will introduce an advanced technique--flotation-produced glass. In this way, products so made can meet the needs of domestic and foreign markets.

3. We Can Improve the Export Product Mix and Increase the State's Foreign Exchange Earnings.

Since the founding of the state, although the proportion of finished products among our export commodities has gradually improved and exports of raw materials and primary products have decreased, a very large number of raw materials and primary products are still being exported due to the backwardness of domestic processing technology, thus making the exchange rate low. The state's foreign exchange earnings would be greatly increased via the introduction of new technologies and techniques from joint ventures to export processed and finished products. For example, after the Shanghai (Gaoshi) Essence Company, a Sino-American joint venture, introduced advanced equipment and chemical formulations, raw material exports were turned into finished product exports and, in line with this, profits more than doubled.

4. We Must Fully Utilize Foreigners' Original Marketing Channels To Expand Sales of Export Commodities.

Since Sino-foreign joint ventures are commonly managed and jointly share profits and losses, foreign investors are bound to be interested in the marketing of their products. Therefore, their original marketing channels and management tricks of the trade can be used to expand commodity exports.

5. We Can Expand the Employment of Labor and Have the Advantages of Training Technical Personnel and Management Cadres.

The construction of plants by foreign investors and joint investors can increase the employment of domestic labor, particularly in the labor-intensive enterprises. At the same time, the technology and equipment introduced by joint

ventures are relatively advanced, and specialists and management tricks of the trade go along with; from this we can learn relatively advanced and modern production operation techniques. At the same time we can cultivate and foster modern scientific management talent.

6. We Can Increase State Tax Revenues and Spur on the Economic Development of Various Trades and Departments Concerned with Exports.

Following the ever-increasing number of joint ventures, the production capacity of export commodities and export trade are continuously expanding. This not only increases the state's tax revenues but further allows for the continuous development of various service trades and departments concerned with exports, such as banks, insurance companies, warehouses, transport companies, ports, airports, telecommunications facilities, markets, hotels and recreational spots, as well as the construction industries, to meet the needs of expanding production and export services.

Nor is this all, for the introduction of foreign funds via Sino-foreign joint ventures serves to promote the development of our entire state economy. The introduction of appropriate technology and equipment can fill in some domestic technological gaps and accelerate the technological transformation of some old industries and the improvement of products. It can solve some questions of substituting commodity imports, allow us to absorb advanced foreign management experience, improve management standards and economic results and thus accelerate the construction of our socialist modernization.

III. Our Sino-foreign Joint Ventures and the Major Problems That Remain

Up to the end of 1982, our country utilized a total of about \$20 billion, of which direct investments accounted for \$5 billion. Considering the direct investments, joint ventures were in first place and foreign businessmen promised to undertake an investment sum of \$2.7 billion; as for the rest, deep-sea cooperative petroleum exploration and extraction were \$990 million; compensatory trade, \$700 million; and joint investment ventures were last, \$140 million for 83 projects.

Considering the sources of foreign capital in direct investments, funds from Hong Kong and Macao accounted for \$3.1 billion, or 60 percent; Japan, \$930 million, or 18 percent; Western Europe, \$470 million, or 9.1 percent; and the United States and Canada, \$460 million, or 8.9 percent.

Considering the projects for direct investments, 43 percent were in industry or mining and 40 percent in tourism and house properties, while the proportion held by agriculture, animal husbandry and the fishery industry was very small.

About two-thirds of the Sino-foreign joint venture investments were in industry, mining, agriculture, animal husbandry and fisheries while tourism and house properties accounted for one-third. Forty percent of the foreign capital in joint ventures came from Hong Kong and Macao, 37 percent from the United States and Canada; other countries accounted for very little. The majority of joint ventures were on a small scale, and some were even less than \$100,000.

The above situation shows that in recent years our country has achieved definite progress and results in the introduction of foreign funds. However, one of our key methods for introducing foreign funds, that of joint ventures, is still making slow progress. There are many problems, and the situation has not really gotten started. I feel that the following reasons for this are:

1. Foreign businessmen feel that our legislation is still incomplete. In recent years, our country's legislative work has been actively carried out; we have successively announced a group of economic laws and regulations. However, it is considerably difficult to formulate all of the laws and regulations concerned with every aspect of foreign economic trade at one blow. Some of the present regulations are still insufficiently specific and detailed; they require a process of study and application. Thus, foreign businessmen look on and hesitate.
2. In certain areas, our policies and measures have been only partially understood. Earning money is the only goal of foreign businessmen who invest overases. We originally stipulated that cooperative ventures would be free from income taxes for only 1 year, and reduced to one-half for 2 years; the actual industrial and commercial tax rate is quite high; there are overly-strict restrictions on the marketing of goods; the price of raw materials supplied to these ventures is unduly high; some investors even have to pay with foreign currency; land use expenses are unduly high and the rates differ within one city to accommodate differences; some office and personal articles purchased by joint ventures are restricted; etc.
3. We have not mastered the profit and loss forecasting of foreign businessmen regarding joint ventures. There are many unknown factors concerning the length of joint ventures, and foreigners feel unsure. For example, although there are regulations concerning supply prices for domestic raw materials, these have not been made public. Nor have the land use costs been fully publicized. Standards are not uniform, and in several years the regulations will have to be readjusted. The state sets selling prices for goods, authority to alter them resides with the departments in charge and market forecasting has no role to play. Our side often refuses to specify in the contract whether profits and capital funds can be remitted in foreign exchange following the expiration of the venture. Our side cannot guarantee the secrecy of imported technology. We still have not signed double taxation agreements with many countries and so foreign businessmen do not necessarily achieve material benefits by our preferential income taxes.

For a very long time, our country has been closed off and sealed in and therefore we lack an understanding of new international situations. Since implementing the open policy, many comrades still have an insufficient understanding of the strategic importance of introducing foreign funds. On top of this, they do not have enough experience and they lack overall planning and arranging skills. Sometimes we have foreign funds but cannot match them with domestic capital, equipment or capital construction capabilities, so negotiations break off prematurely. No do foreign businessmen sufficiently understand our situation and customs and so they hesitate and look on. Added to this, our work efficiency is low and the dilatory work style is serious. Particularly in joint-venture

projects, if the scale is rather large and quite a few departments are involved, opinions are frequently divergent, meaning that there are talks, and more talks, and stalling, and 3 or 4 years pass for one delay, so foreign businessmen are afraid to do anything.

IV. Several Opinions Concerning Development of Sino-foreign Joint Ventures Hereafter

In order to accelerate the construction pace of the four socialist modernizations, our country should use the foreign funds that can be used as much as possible. The channels and methods for introducing foreign funds should be varied and numerous, and not limited to one type. We must make choices according to specific projects and analyze and compare different methods. In the wake of developments in the international economy and our economic construction, it is possible that new forms of utilizing foreign funds will arise. Currently, joint investment ventures are one of our key forms to be developed.

In starting up joint-venture projects, those of a productive nature should be stressed, including coal extraction, the petrochemical industries, metallurgy, construction materials, mechanized manufacturing, electronics and the light and textile industries, communications, agriculture, animal husbandry and the fisheries industries. We should combine the utilization of foreign funds with the introduction of technology and technological transformation.

The following questions should receive our high regard in starting joint ventures:

First, we must establish an ideology of "mutual benefit" in our understanding of joint-venture enterprises. Profit is the direct motive for all private investments. In attracting foreign businessmen to invest, we must really allow them to plan for profits. Lenin said that it is impossible for the Soviet nations /su-wei-ai guo-jia/ not to give foreign capitalists a certain "tribute and tax" when utilizing foreign funds.

Second, we must appropriately relax various preferential conditions. Policies and measures must be appropriately relaxed in order to ensure that foreign businessmen have reasonable profits. For example, our present income tax rates and levies on land use for joint ventures are unduly high.

Although the newly-promulgated "Implementing Regulations" have relaxed many problems to varying degrees, some problems are still worth studying. For example, many joint-venture products cannot avoid losses if sold overseas according to the state regulations for foreign exchange settlements based on the state regulations for domestic raw material procurement prices unless we allow a small or large portion of the goods to be sold domestically. Or we might consider being flexible on income tax rates and the length of the reduction period, based upon differing trades, sizes and other factors of the ventures. We should appropriately relax restrictions again on those things that we urgently need to import or that have a key relationship to our state economy and the development of science and technology or on those joint ventures that are located in the border or remote areas that are in urgent need of development.

We should still give priority to the overseas sale of goods produced in joint ventures. However, we should relax the domestic marketing for those goods which are in short supply domestically or can improve the people's livelihood or for those for which we are partially or totally dependent on imports. This is also advantageous to stimulating improvements in the quality of domestic goods of the same categories. We cannot allow the autonomy and leadership authority of joint-venture boards of directors to be merely nominal. As for the wages of foreign nationals and other questions concerning the remission of earnings, we should relax restrictions so as to encourage foreign specialists to work in our country.

Third, we must continue to perfect foreign economic legislation concerned with the introduction of foreign funds. We must earnestly study international economic legislation, particularly the domestic economic and foreign-trade laws of some important countries. At the same time, we must integrate this with our country's actual conditions and formulate even more improved land laws and concrete laws and regulations concerning foreign economic trade for 100 percent of the foreign-owned enterprises in our country. This is an important task.

Fourth, we must intimately join the management activities of joint ventures to the management system of our planned economy. The management of joint ventures enjoys the greatest autonomy. Departments in charge do not have production and management plans of a directive nature over them. Therefore, beginning from capital construction and ancillary equipment for joint ventures on through to the production, sale and balancing of foreign exchange income and expenditures, all require close coordination with our planned management system. The development of their business will be adversely affected otherwise.

Finally, we must rapidly alter our bureaucratic work style, improve work efficiency, speed up the pace and create a thriving new situation in the setting up of Sino-foreign joint ventures.

12615
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FOREIGN TRADE AND INVESTMENT

SHANXI'S FOREIGN TRADE EFFORTS

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 6, 27 Jun 84 pp 26-27

/Article by Bai Qingcai /4101 2237 2088/: "Shanxi's Sudden Appearance in International Economic Cooperation"/

/Text/ Shanxi Province is located on a loess plateau in the middle reaches of the Yellow River. It has an area of 150,000 square km and a population of over 25 million. Since ancient times it has been a hub of communications between east and west; its geographical position is vitally important.

Mineral Resources Head the List

Shanxi's mineral resources are extremely abundant, it has inexhaustible underground deposits. Coal reserves in particular head the nationwide list and the province enjoys a worldwide reputation as the "home of coal and iron." There are six major coalfields--Datong, Ningwu, Xishan, Xiangning, Xi and Qinshui--and numerous middle-size and small coalfields are scattered over 80 percent of the counties in the province for an area of over 57,000 square km. One-third of the country's proven coal deposits are here, amounting to more than 20 million tons. They are complete in variety and are of top quality and have rather shallow coal seams. The present annual output of raw coal is more than 140 million tons, one-fifth of the national output. There are 343 million tons of bauxite deposits, one-third of the national figure. Additionally, iron, copper and gypsum reserves occupy an important place nationally. Various types of limestone, pearlite, marble, granite, refractory clay, sulphur and mirabilite resources are also relatively plentiful.

Energy Resources and a Heavy Chemical Industry Base

After the founding of New China, and following more than 30 years of large-scale economic construction, the productive power of Shanxi's industry and agriculture has improved on a grand scale, making it one of our country's important industrial bases. Its industrial categories are complete and the entire province forms a rather comprehensive industrial system, ranking it as a national energy resource and heavy chemical industry base. Shanxi's economic enterprises and industrial and agricultural production have been greatly developed, particularly since the 3d Plenary Session of the 11th Party Central Committee in 1978 when we implemented the policies of opening to the outside

world and enlivening the domestic economy. Last year the gross industrial output value of the province reached 15.187 billion yuan, an increase of 38.4 percent over 1978, accounting for about 70 percent of the gross industrial and agricultural output value.

Presently there are more than 9,600 industrial enterprises in Shanxi. Besides the heavy industries, there are also the light, textile, machinery and manufacturing industries. In 1982, steel production was 1.5 million tons, an 8.4 percent increase over the previous year; rolled steel was 825,000 tons, an 18.4 percent increase; electric energy production was 13.692 billion kilowatt hours, a 9.9 percent increase; and cotton production was 429.62 million meters, an 8.3 percent increase. There were 346,500 sewing machines, a 42.9 percent increase; 334,800 bicycles, a 70.9 percent increase; 35,479 washing machines, a 20.5 percent increase; and 31,925 tons of synthetic detergents, a 29.2 percent increase. However, Shanxi's current industrial structure is made up of many raw material industries and few sophisticated processing industries. Many enterprises need to be technologically transformed and the quality and economic results improved. A group of new projects must be built in the energy resource, transportation and other areas, including large-scale construction projects and the regeneration of products in middle- and small-size enterprises and the light industries.

Foreign Economic Cooperation Just Starting

In the area of foreign economic trade, Shanxi Province has broad economic contacts with over 40 countries and regions in the world on the basis of equality and mutual benefit and in line with the principles of mutual benefit and common development. Particularly in the last few years, trade has steadily risen. Economic cooperation is broadening day by day and the forms of cooperation are becoming increasingly varied. Presently, Shanxi has over 300 chief export commodities, including coal, vulcanized soda, gypsum, mirabilite, alumina, slate, graphite, bearings, mechanical tools, various stainless steel implements, cotton yarn, synthetic woolen blankets, synthetic furs, fur clothing, ceramics, famous wines, frozen pork, peaches, day lilies, dried chili peppers, potatoes, etc. They are sold to 98 countries. In 1983 the entire province's foreign trade purchases amounted to 540 million yuan, the best level ever, 1.3 times greater than in 1978. The proportion held by export commodity purchases in the overall provincial gross industrial and agricultural output value figure rose from 0.9 percent in 1978 to 3.56 percent. The rate of foreign trade developments exceeded increases in the rate of industrial and agricultural production for the same period.

Beginning in 1971, Shanxi has actively been developing labor service cooperation projects. It has provided various specialized and professional services and labor, including engineers, technicians, designers, architects, craftsmen, physicians and teachers who have ample experience to various foreign engineering and construction projects. In recent years more than 10 economic and technological projects have been completed. In order to accelerate further the development of foreign economic trade and technological cooperation and to meet the needs of Shanxi's economic development, the province has established the Shanxi, International Economic and Technological Cooperation Company, the Shanxi

International Trust and Investment Corporation, the Foreign Trade Import Company and other foreign economic agencies. In close coordination with the Taiyuan branch of the Bank of China, various forms of economic and technological cooperation utilizing foreign funds and introducing technology have made preliminary achievements. Last year, 51 various contracts were signed and the volume of business exceeded \$20 million. Relatively good results have been achieved in chemical fiber production and in the printing, dyeing and finishing of textiles. From 1-10 April of this year, Shanxi held its first international economic and technological cooperation forum. It announced 115 projects and attracted over 400 representatives who came to negotiate on behalf of more than 270 companies and over 20 countries and regions.

Broad Prospects for Foreign Economic Cooperation

Shanxi has already made some headway in introducing technology and utilizing foreign funds. However, generally speaking, Shanxi's foreign economic and technological cooperation is still in the preliminary stages.

Shanxi has decided that the emphases for utilizing foreign funds and introducing advanced technology and equipment hereafter will be to transform the present enterprises and introduce new technologies, techniques and equipment so that Shanxi's superior position in energy resources and its heavy industry base can be fully utilized and to strive to make industry become advanced as soon as possible. Presently, it is particularly stressing the development of food processing, packaging, overall finishing and dyeing of textiles, construction and magnetic materials and the manufacture of machinery and instruments that serve coal production. The forms of cooperation can be many and varied, such as the provision of loans, joint ventures, cooperative ventures, cooperative production, compensatory trade, the processing of imported materials or equipment rentals. In order to guarantee the investors' legal economic benefits, the production of export products are being encouraged. However, any products that are urgently needed domestically or that must be imported can be sold on the domestic market. Imbalances in foreign exchange can be solved by an adjustment of the foreign exchange which is retained locally within the province. We wholeheartedly welcome industrialists and businessmen from economic circles and financial circles throughout the world to visit Shanxi and discuss trade and to develop economic and technological cooperation.

12615

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SPECIAL ECONOMIC ZONES

SHENZHEN DEPUTY MAYOR COMMENTS ON EFFECTS OF REGULATIONS ON ZONE

Guangzhou YANGCHENG WANBAO in Chinese 13 Aug 84 p 1

/Article by Cheng Kai /4453 0418/: "Can Shenzhen Be Stifled to Death by the 'Two Lines'? Zhou Ding Says, Do Not Worry; After Implementing Two-line Administration, Procedures for Inland Personnel Entering the SEZ Will Not Change; Once the SEZ Truly Takes Shape, Its Economy Has To Develop Further"/

/Text/ Zhou Ding /0719 7844/, deputy mayor and deputy secretary of the Shenzhen municipal CPC committee, said that the economy of the special zone will develop even further following the implementation of the two-line administration in the Shenzhen SEZ (i.e., the line separating the SEZ and the nonspecial zone).

Zhou Ding said this at a meeting of level-three cadres in Shenzhen which recently ended. Some cadres were worried that after implementing the two-line administration, the SEZ would be sealed off.

The Shenzhen Special Economic Zone's two-line project, which has attracted the attention of people throughout the country and abroad, has now entered the stage of completion. This separate line is being formally implemented, and timely completion is not far off. This separate line has not political significance whatsoever. It was set up to promote better the economic development of the Shenzhen SEZ, but will it seal off the special zone by inhibiting the passage of personnel between the zone and inland and economic exchanges? Many people have expressed deep concern about this.

Zhou Ding feels that such concern is unnecessary, because after implementing the two lines in administration, procedures for inland personnel entering the zone will not change and goods that comply with the regulations can enter or exit the zone. At the same time, the special zone will be truly completed, the various preferential policies for introducing foreign funds to the area will be further thoroughly implemented and the zone's roles as a "window" and a "channel" will be brought into greater play only after implementing the two-line administration. In this way, there will be even more people coming to the zone to look into and negotiate business or coming in as tourists, and the passage of personnel and economic exchanges will not slacken but, on the contrary, will pick up.

Zhou Ding said that the two-line administration will be implemented in line with the principles of rigor and simplification. The practice of attempting to resell to the inland tax-exempt goods purchased wholesale in the special zone will not be allowed, whether prior to or following implementation of the two-line administration.

Zhou Ding disclosed that due to implementation of the two-line administration, the first line (i.e., the dividing line between the special zone and Hong Kong) will be further unimpeded and entry and exit procedures will be simplified. Compatriots from Hong Kong and Macao and overseas Chinese and foreigners entering the zone are bound to increase and their consumption in the zone will correspondingly rise. Commodities sold in the zone can be directly imported, duty free, from Hong Kong and the foreign production areas, gradually making the special zone into a purchasing center with ample goods and price advantages.

The last thing that Zhou Ding emphasized was that from now on, the SEZ must do all the work necessary to greet the beginning of the implementation of the two-line administration. In particular, commercial departments must improve business management, open up more stocks and sales channels and improve the quality of service. They must do business not only between the SEZ and the interior but also with compatriots from Hong Kong and Macao and with overseas Chinese and foreigners. They must enliven business and improve their competitiveness in Hong Kong and the international markets.

12615

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LABOR AND WAGES

SHANXI TRADE UNION CONGRESS OPENS 9 DECEMBER

HK100347 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 9 Dec 84

[Summary from poor reception] The seventh Shanxi Provincial Trade Union Congress opened in Taiyuan on 9 December, attended by 1,155 delegates. Present at the opening ceremony were responsible comrades of the provincial CPC Committee, People's Congress Standing Committee, government, CPPCC, and Military District, and of Taiyuan City including Li Ligong, Li Xiuren, Wang Senhao, Wang Kewen, Wang Jiangong, and Ruan Bosheng. (Qian Jiao), adviser to the Provincial Federation of Trade Unions, presided.

(Guo Changfu), vice chairman of the federation, gave the opening speech. He said: "The tasks of this congress are to implement the spirit of the 3d Plenary Session of the 12th Central Committee and the guidelines for trade union work in the new situation, sum up work since the 6th Provincial Trade Union Congress, decide on future tasks, and mobilize the staff and workers of the province to display the spirit of being masters of the house during the urban economic reforms, stand in the forefront of reform, strive to promote production and work, and make still greater contributions to creating a new situation in the worker movement and trade union work in the province and to invigorating Shanxi."

Wang Kewen, deputy secretary of the provincial CPC Committee, also made a speech. (Li Qifeng), chairman of the Provincial Federation of Trade Unions, then delivered a work report entitled "The working class of the whole province should mobilize, stand in the forefront of reform, and strive to invigorate Shanxi's economy."

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LABOR AND WAGES

BRIEFS

SHANXI TRADE UNION CONGRESS CONCLUDES--The seventh Shanxi trade union congress victoriously concluded in Taiyuan on the afternoon of 13 December. Responsible comrades of the provincial CPC committee and government Li Xiuren, Wang Senhai, and Zhang Jianmin attended the closing ceremony. Comrade (Li Jingfeng) presided. The names of the chairman and vice chairmen of the seventh committee of the Shanxi Provincial Federation of Trade Unions, who were elected by the congress, were read out at the closing session. (Shi Xiangyan) was elected chairman, and (Zhou Zhifa), (Tian Yufeng), (Guo Changfu), and (Wang Deyuan) were elected vice chairmen. Chairman (Shi Xiangyan) delivered the closing speech. He said: The seventh committee of the provincial federation of trade unions has now been produced. We are facing glorious and arduous tasks. Guided by the spirit of the 3d Plenary Session of the 12th Central Committee, let us unite as one, brace our spirits, work hard at reform, and clear the way to forge ahead. [Excerpts] [Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 13 Dec 84 HK]

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TRANSPORTATION

PROBLEMS OF COMMUNICATIONS, TRANSPORTATION NETWORKS REVIEWED

Hunan JINGJI [ECONOMIC GEOGRAPHY] in Chinese No 3, Aug 84 pp 221-225

[Article by Zhang Yangming [1728 7122 2494] of the Planning Institute of the Ministry of Railways: "Problems Concerning the Distribution of Communications and Transportation Networks and the Division of Transportation Labor in China"]

[Text] There are five major modes of modernized communications and transportation in China--railway, water, highway, pipeline and air. In the comprehensive distribution of communications and transportation networks, it is necessary to determine properly the proportion of development in the different modes of transportation in accordance with the national distribution of productive forces, the rational distribution of industry, the directions in which goods and materials flow, the geographical conditions of communications and transportation and the technical and economic characteristics, transport policies, carriage policies and the transport organizations of different modes of transportation. In order to develop fully the advantages of different modes of transportation, it is also extremely important to determine the rational divisions of labor among them.

I. Current Situation of Communications and Transportation Networks

Since the founding of the PRC, in order to meet the needs of the development of industrial and agricultural production, promote the exchange of goods and materials between the urban and rural areas, link the production and sales of industrial and agricultural products and improve the distribution of production, all modes of transportation have made great advances and an initial form of comprehensive transportation networks based on railways and the main lines of river and sea transportation has already taken shape. The total length of lines and networks for all modes of transportation in China has now reached 1.2 million km (of which the mileage of railway service is 50,500 km, that of local railways open to traffic is 3,700 km, that of highways open to traffic is 907,000 km, that of inland navigation is 108,600 km and that of civil airlines is 132,800 km), a more than five-fold increase over the initial post-liberation period. (See Table 1 for the length of transportation lines in all regions in 1982.)

At present, the situation in the passenger and freight transport volume handled by various modes of transportation is: railways handle over 70 percent of

national freight turnover volume and 60 percent of passenger turnover volume; highways handle 70 percent of passenger transport volume; and waterways handle 20 percent of freight-turnover volume (not including oceangoing transportation. (See Table 2.)

Transportation networks have not only increased in number but has also improved to a certain degree in distribution, initially changing the situation of concentrating on northeast China and the coastal areas. Railways distributed over the areas west of the Jingguang line have increased from 4,200 km in the initial post-liberation period to over 23,000 km, and their proportion of the national railways has increased from 19 percent to 45 percent. The distribution of railways has also improved substantially. Highways in northeast and north China which accounted for 35 percent of all highways in China in 1949 declined to 23.6 percent in 1982 while highways in the southwest and northwest went up from 24.6 to 32.2 percent. (See Table 3.)

The initial formation of transportation networks and the increasingly rational distribution have provided good transportation conditions for extending China's industrial distribution to the vast areas in west China and developing the regional industry and agriculture.

Due to the differences in the economic development level, natural and geographical conditions and regional communications and transportation conditions of different regions, the regional disparities in passenger and freight transport volume handled by different modes of transportation are also fairly substantial. For example, in northeast China passenger and freight transportation mainly relies on railways because a railway network has already been basically established and there are very few inland waterways; in northwest and southwest China, highways occupy a fairly high ratio in passenger and freight transportation; and in central south and east China, inland water transportation is well developed, handling a fourth of the freight transport volume. (See Table 4.)

Table 1. Length of Transportation Lines in All Regions in 1982 (Unit: Km)

| Regions | Mileage of Railway Service | Mileage of Highway Service | Mileage of Inland Navigation Service |
|----------------------|----------------------------|----------------------------|--------------------------------------|
| National total | 51,541 | 906,963 | 108,634 |
| North China | 10,392 | 115,149 | 1,060 |
| Beijing Municipality | 858 | 7,683 | - |
| Tianjin | 399 | 3,705 | 457 |
| Hebei | 2,594 | 40,174 | 29 |
| Shanxi | 2,131 | 27,505 | 170 |
| Nei Monggol | 4,409 | 36,132 | 404 |
| Northeast China | 12,046 | 98,737 | 6,021 |
| Liaoning | 3,530 | 29,725 | 508 |
| Jilin | 3,471 | 24,047 | 737 |
| Heilongjiang | 5,045 | 44,965 | 4,776 |
| East China | 7,321 | 168,900 | 52,732 |
| Shanghai | 245 | 2,109 | 2,474 |
| Jiangsu | 714 | 20,609 | 23,508 |
| Zhejiang | 831 | 20,868 | 10,620 |
| Anhui | 1,398 | 25,486 | 5,489 |
| Fujian | 1,828 | 33,827 | 3,875 |
| Jiangxi | 1,433 | 30,497 | 4,937 |
| Shandong | 1,672 | 35,504 | 1,829 |
| Central South China | 8,351 | 232,461 | 34,771 |
| Henan | 1,994 | 36,912 | 1,110 |
| Hubei | 1,601 | 44,946 | 7,859 |
| Hunan | 2,288 | 55,289 | 10,154 |
| Guangdong | 846 | 63,158 | 11,129 |
| Guangxi | 1,622 | 32,156 | 4,519 |
| South West China | 5,902 | 178,645 | 10,814 |
| Sichuan | 2,876 | 83,542 | 8,185 |
| Guizhou | 1,396 | 27,499 | 1,661 |
| Yunnan | 1,630 | 46,053 | 968 |
| Xizang | - | 21,551 | - |
| Northwest China | 6,529 | 113,071 | 828 |
| Shaanxi | 1,836 | 36,799 | 708 |
| Gansu | 2,245 | 32,065 | 121 |
| Qinghai | 1,027 | 15,664 | - |
| Ningxia | 439 | 6,869 | - |
| Xinjiang | 982 | 21,674 | - |

Note: The total does not include Taiwan Province.

Table 2. Transport Volume Handled by Different Modes of Transportation

| Transport volume Trans- port modes | Passenger Transportation | | | | Freight Transportation | | | |
|---|---------------------------------|------|---------------|------|---------------------------------|------|--------------------------------------|------|
| | Transport Vol. (million ppl) | | Turnover Vol. | | Transport Vol. (million ton) | | Turnover Vol. (100 million tonkm) | |
| | Quantity | % | Quantity | % | Quantity | % | Quantity | % |
| Total | 4,289 | 100 | 2,743 | 100 | 2,429 | 100 | 8,634 | 100 |
| Central railways | 989 | 23.1 | 1,572 | 57.3 | 1,110 | 45.7 | 6,109 | 70.9 |
| Local railways | 10 | 0.2 | 3 | 0.1 | 25 | 1.0 | 11 | 0.1 |
| Highways | 3,006 | 70.1 | 964 | 35.1 | 778 | 32.5 | 303 | 3.5 |
| Waterways (domestic) | 280 | 6.5 | 144 | 5.3 | 397 | 16.3 | 1,708 | 19.7 |
| Civil airlines | 4.45 | 0.1 | 60 | 2.2 | 101,700 (tons) | | 2 | |
| Pipelines | | | | | 109 | 4.5 | 501 | 5.8 |

Note 1. Total figures do not include oceangoing transportation volume; water transportation figures only refer to domestic transportation.

2. Listed are actual figures of 1982.

Table 3. Percentages for the Mileage of Railways, Highways and Inland Waterways Open to Traffic (Navigation) in Major Regions

| Name of Regions | Railways | | Highways | | Inland Waterways | |
|--------------------|----------|-------|----------|-------|------------------|-------|
| | 1949 | 1982 | 1949 | 1982 | 1949 | 1982 |
| Northwest | 2.09 | 12.93 | 11.11 | 12.46 | 0.92 | 0.78 |
| Southwest | 3.36 | 11.68 | 13.51 | 19.70 | 13.59 | 10.18 |
| Central South | 16.36 | 16.51 | 17.16 | 25.63 | 38.26 | 32.73 |
| East | 16.67 | 14.49 | 23.22 | 18.62 | 33.61 | 49.64 |
| North | 21.45 | 20.56 | 11.51 | 12.70 | 5.76 | 1.00 |
| Northeast | 40.07 | 23.83 | 23.49 | 10.89 | 7.86 | 5.67 |
| National total | 100 | 100 | 100 | 100 | 100 | 100 |

Table 4: Percentages for Regional Passenger and Freight Transport Volume
(handled by Major Modes of Transportation)

| Name of Region | Name of Freight or Passenger Transport | Railways | Waterways | Highways |
|----------------|--|----------|-----------|----------|
| Southwest | Passenger transport volume | 19.03 | 8.77 | 72.20 |
| | Passenger turnover volume | 51.46 | 2.48 | 46.06 |
| | Freight transport volume | 46.79 | 11.09 | 42.12 |
| | Freight turnover volume | 83.89 | 4.59 | 11.52 |
| Northwest | Passenger transport volume | 28.04 | 0.05 | 71.91 |
| | Passenger turnover volume | 73.86 | - | 20.14 |
| | Freight transport volume | 66.12 | 0.13 | 33.65 |
| | Freight turnover volume | 94.28 | 0.02 | 5.70 |
| Central South | Passenger transport volume | 18.22 | 7.19 | 74.59 |
| | Passenger turnover volume | 53.79 | 4.68 | 41.53 |
| | Freight transport volume | 39.82 | 24.45 | 35.73 |
| | Freight turnover volume | 87.92 | 8.86 | 3.22 |
| East | Passenger transport volume | 14.41 | 11.71 | 73.88 |
| | Passenger turnover volume | 52.14 | 5.26 | 42.60 |
| | Freight transport volume | 31.88 | 25.13 | 42.99 |
| | Freight turnover volume | 77.22 | 16.85 | 5.93 |
| North | Passenger transport volume | 46.62 | 0.05 | 53.33 |
| | Passenger turnover volume | 79.74 | - | 20.26 |
| | Freight transport volume | 65.78 | 0.90 | 33.32 |
| | Freight turnover volume | 96.36 | 0.84 | 2.80 |
| Northeast | Passenger transport volume | 61.45 | 0.19 | 38.36 |
| | Passenger turnover volume | 83.27 | 0.20 | 16.53 |
| | Freight transport volume | 74.45 | 1.09 | 24.46 |
| | Freight turnover volume | 97.76 | 0.78 | 1.46 |

Note: Listed is actual situation in 1980.

II. Factors Affecting the Allocation of Transport Volume for Different Modes of Transportation and the Division of Labor Among Different Modes of Transportation

Studying the rational division of labor among different modes of transportation is complicated work. The same kind of goods may be allocated to railway, highway, waterway or integrated water-land transportation.

The division of labor in transportation is mainly reflected in two areas: the rational allocation of transport volume and the rational distribution of transport networks. In order for different modes of transportation to take up a rational and definite number of transportation tasks, first of all it is necessary to study the suitability of different modes of transportation for goods of different natures, quantities, directions in which they flow and transport distances.

1. The characteristics and physical functions of different goods set different demands on the selection of the modes of transportation. For bulk cargoes in a large quantity, primary products and industrial raw materials characterized by a low value and a large transport volume such as coal, timber and metallurgical goods and materials, the modes of transportation with large transport capacity and low transport cost such as rail and water transit should be chosen; for perishable and valuable goods which have a higher demand on the speed, quality and safety of transport, compatible modes of transportation such as rail, highway and air transit should be chosen; for liquid and gas, pipeline transit is economical; for overweight and oversized goods, water transit is suitable; and container transportation calls for coordination among all modes of transportation and "door to door" service in order to display its superiority.

2. The volume and distance of transportation have certain effects on the choice of different modes of transportation. Each mode of transportation has its own economical and rational transport distance. Transport within the range of economical transport distances costs the least and therefore is economical and rational. For instance, the economical transport distance of highways is 400 km in the economically developed West European countries, 150 km in the Soviet Union and about 30 km in China. Using rail to transport goods over a very short distance is irrational. Using highways to transport a large quantity of goods over a long distance in China is also uneconomical. While transferring a large volume of goods to concentrated areas over a short distance, in addition to highway transit, other modes of transportation such as special roadways, local railways and belt conveyers should also be considered.

3. The direction in which goods flow has a direct impact on the allocation of transportation. The distribution of industry, mineral resources and transportation networks already formed in Chinese history has a vital bearing on the allocation of freight transport volume. To analyze the volume and direction of the flow of goods in Chinese history, the volume of goods flowing between north and south is larger than that between east and west; the capacity of major northbound and southbound transit lines is also larger than that of major eastbound and westbound lines. The transportation of goods flowing between south and north is mainly focused in areas east of the northbound and southbound Tongpu Railway and the Jiaozhi and Zhiliu Railways; the flow of goods between east and west mostly occurs in areas north of the Huanghe, thereby increasing the load on rail transit.

While transferring goods in and out of enterprises along the bank of the rivers, the mode of transportation should be decided by the direction in which the goods flow. If the flow direction conforms to the direction in which the river runs, the goods should be transferred by water transit; if not, they should be transferred by other modes of transportation.

4. The structure of regional communications and transportation networks is one of the factors that affect the allocation of transport volume. The allocation of transport volume in different regions of China is often restricted by the conditions of communications and transportation. The traditional modes of transportation in China are "vehicles in the north and boats in the south". Therefore, in the southern areas, inland rivers take up a definite amount of transport volume; in the northern areas, highways usually take up the short-distance transportation and at the same time local railways have been developed (local railways have also been developed in southern areas); and in the remote border areas, where rail and water transit is not available, highways and airways take up the tasks of long-distance transportation.

The demands of the national economy on communications and transportation are large carrying capacity, low transportation cost, little investment, fast speed and little influence from seasonal and environmental changes. Different modes of transportation satisfy these demands to different degrees. Therefore, when studying the division of labor among different modes of transportation, it is necessary to proceed from China's actual conditions and take economic results into full consideration.

III. Rational Division of Labor Between Railways and Other Modes of Transportation

China is a continental country with a vast territory and uneven distribution of industries and natural resources. Therefore, the decision that railways be made China's primary means of transportation to take up the tasks of intermediate- and long-distance passenger and freight transport is in line with China's actual conditions. However, different modes of transportation have their own different economic and technical characteristics and their own range of suitable uses. Therefore, it is necessary to develop fully the advantages of every mode of transportation to form a comprehensive transport capacity so as to satisfy the needs of national economic development for communications and transportation.

The division of labor in transportation is fairly complicated. The discussion here will be focused on questions related to the rational division of labor between railways and other modes of transportation.

1. Division of labor between rail and water transit

Railways and waterways are two major modes of transportation in China. In 1982, they handled 49.3 and 44.1 percent, respectively, of the freight turnover volume (70.9 and 19.7 percent if oceangoing transport volume is excluded). Most goods transported by major water transit lines in China need to be assembled and distributed by railways; therefore, strengthening the coordination and division of labor between rail and water transit is of great significance in jointly fulfilling the daily increasing transportation tasks.

Both railways and water transit have their own characteristics and each assumes its transport tasks accordingly. The characteristics of rail transit are larger transport volume, faster speed, greater consistency and less influence from natural conditions. Not only can railways link together important cities, towns, harbors and industrial, mining and enterprise bases throughout the country but they can also play an extremely important role in accelerating the development of border and economically backward areas. Judged by the technical and economic characteristics, railways are especially suitable for the intermediate- and long-distance transportation of large-quantity goods and passengers. This is even more important in countries with a large territory. Among all modes of transportation, the economic targets of major water transit lines (coastal transit and major Changjiang transit lines) are better than that of others and therefore suitable for the transport of a large quantity of goods in large transport volume that are of low value and have no special time limits.

The division of labor between rail and water transit is to a large extent decided by the distribution of natural water systems and navigation conditions. Judged by the actual conditions in current China, it is significant to compare railways only with coastal transit and major Changjiang transit lines, for other inland rivers can only assemble and distribute goods for local areas. At present, everyone thinks that it is necessary to utilize water transit fully. Then, what does it mean by fully utilizing water transit? What is the criterion?

Our understanding is: water transportation should be used in all areas within the sphere of major water transit lines to ship goods whose flow direction is basically the same as that of navigation and which can be shipped to production or marketing areas by water transit lines or by rail-water transit lines after one transfer and cost less than direct delivery by rail.

At present, everyone is relatively concerned with the question of exactly how much coastal transit lines should handle in the "transport of coal from the northern to the southern areas." We think that the overwhelming majority of goods handled by coastal transit lines rely on railway to be assembled and distributed. This creates two problems: 1) reloading at transfer points adds to transportation expenses and the wear and tear on goods and materials. For example, reloading coal once can cause 3 percent wastage. 2) After goods arrive at ports through integrated transit lines, can they directly attract consumption in the coastal areas or do they need to be transferred again by railways? If the answer is the latter, it will not only increase transportation expenses but also continue to occupy the transport capacity of railways. Rail-water-rail transportation with two transfers is irrational. Therefore, coastal transport volume should conform to the consumption level of the coastal areas to avoid the irrational transportation of transferring again from water lines to railways resulting from the excessive transport of goods and materials by water.

Take a few coastal provinces and municipalities, for example. Of all the coal needed in the Shanghai area, about 82 percent is shipped by water transit; of all the coal shipped to Zhejiang and Fujian Provinces, only 13 percent is shipped directly by water. At present, people tend to think that all coal

shipped to east China is by integrated water and land transit lines. In fact, on the condition that water transportation be fully utilized, about 25 percent of all coal consumed in east China is shipped by water transit; the remaining 75 percent is transported directly by railways. About 36 percent of all coal is shipped to east, central south and northeast China by integrated rail and sea transit lines; the remaining 64 percent still needs to be transported directly by railways. Bringing up this question is very necessary. First, it can further coordinate the transport capacity of railways and ports. Second, it can explain why in railway construction it is necessary to increase not only the capacity of eastbound and westbound major railway lines to carry out the joint water and land transportation tasks but also the capacity of northbound and southbound major railway lines to carry out direct transportation tasks.

Economic results are one of the important factors affecting the division of labor between railway and water transit. When two modes and two routes of transportation are available for the shipment of the same kind of goods, in the past we used to allocate the transport volume only according to the transport capacity and seldom considered the economic results of transportation. For example, in the past, the coal of Zaozhuang in Shandong was shipped directly to the Wuhan Iron and Steel Company via the Longhai and Jingguang Railways. Later, due to the inadequate capacity of the Longhai line, it was shipped through the Jiangpu line and then transferred to the Changjiang water transit line. Judged by the economic results of transportation, the shipment of coal by direct rail transit costs 1.55 yuan less per ton than by integrated rail and Changjiang transit lines. For another example, the coal of Shanxi and Henan provinces may be shipped to the provinces and municipalities in east China by direct rail transit or by integrated rail-sea or rail-Changjiang transit lines. When selecting the mode and route of transportation for large-quantity goods and materials, it is necessary to compare the economic results of transportation, select a rational transport plan and use water or land transit, whichever is suitable.

2. Division of labor between rail and highway transit

Both railways and highways are major modes of land transportation. Judged by their characteristics, their suitability is different. In the transportation costs of railways, about 70 percent are irrelevant to transport volume, of which 20 percent are expenses for the departure and arrival operations. Therefore, the greater the transport volume and the longer the transport distance, the lower the transport costs of goods. This characteristic determines that railways are economical in intermediate- and long-distance passenger and freight transportation; being just the opposite, highways are the major mode of transportation in China for short-distance transportation and for the assembly and distribution of goods for railways and ports.

There is no clear limit for the economic transport distance of railway and highway transportation. It was set at 30 km in the 1950's and again at 50 km in the 1960's. However, for various reasons, their implementation was not satisfactory. At present, the ratio of short-distance transportation handled by railways is fairly high in China. The transport distance of 14 percent of total transport volume handled by the railways is within 50 km and the fourth of the volume is within 100 km. Excessive short-distance transportation by

railways can reduce the efficiency of railway transit and increase the transportation costs. Therefore, based on China's actual conditions, short-distance transportation within 50 km should from now on be restricted for railways; the transportation of goods within 100 km should still be partially handled by railways. However, efforts should be made to promote the practice of having trucks gradually take over the transportation of goods within 100 km.

Long-distance transportation of large quantities of goods and materials by trucks is uneconomical based on the current technical and economic targets of China's auto transportation. The cost of auto transportation per ton/km is 17 times that of rail transit. If the coal of Datong in Shanxi Province is shipped to Shanghai by rail and sea transit, the price of coal per ton would be about 54 yuan. If it is shipped to Qinhuangdao by trucks and then to Shanghai by sea, the price of coal per ton would be higher than 110 yuan. Moreover, the energy consumption of auto transportation per ton/km is 15 times higher than that of rail transit (diesel locomotives). Under the situation of energy shortages in China, especially oil product shortages, using trucks to transport large quantities of goods and materials over long distances is uneconomical. It is thus evident that based on China's actual conditions, auto transportation should focus on short-distance local transport and the assembly and distribution of goods for railways and ports.

The transportation of energy resources is insufficient and 27 million tons of coal were stockpiled in Shanxi in 1983. Then, how do we solve the problem of transporting coal out of Shanxi Province? First, we should speed up the construction of railways for transporting coal out of Shanxi. The construction of the railway between Datong and Qinhuangdao has officially begun with state approval. It will be completed in 1988 and form a coal transport capacity of 60 million tons in 1990. Vigorous work has been carried out with regard to the railways from Suo County to Shijiazhuang and from Houma to Yueshan, with a strong effort to complete them before 1990. By then, the transport capacity of railways may be able to meet the demand of transporting coal out of Shanxi. Second, to reduce the stockpiling of coal in Shanxi, we must give full play to the function of highways in assembling and transporting goods. At present, the problem of stockpiled coal in Shanxi mainly refers to local collieries far from the railway lines. Therefore, highways must cooperate with them in assembly and transportation. Railways especially will from now on develop freight cars demanding complete loading and unloading operations. The assembly and transportation tasks of coal loading stations, which will be mainly carried out by trucks, will become very arduous. Therefore, for carrying out the task of coal transportation in the future, it is necessary to increase the transport capacity of railways and at the same time increase the short-distance assembling and transport capacity of trucks accordingly. Only by closely coordinating with each other and developing their own advantages can railways and highways form a comprehensive transport capacity and jointly fulfill energy and other transportation tasks.

3. Division of labor between railway and pipeline transit

Pipeline transit is a special mode of transportation, suitable especially for oil and gas transport. Along with the development of pipelines, the allocation

of the crude oil transport volume has also changed drastically. In 1966, 66 percent of the crude oil was transported by railways and 25 by pipelines. By 1980, crude oil transport by pipelines increased substantially to 81 percent and that by railways accounted for 11 percent. Such a change in the transportation structure of crude oil is normal. It is estimated that along with the continuous development of China's petroleum industry, the ratio of pipeline transport volume will continue to increase.

Since using railways to transport crude oil is uneconomical, while choosing the mode of transportation in the exploitation and development stages of oilfields, those who have conditions to build pipelines generally should build permanent pipelines to solve the problem of external transport of crude oil. They should not use railway or water transit as an interim measure; otherwise, they will cause huge waste.

At present, finished oil products are transported mainly by railways. But because using railways to transport finished oil products is expensive and occupies too much of the capacity of the railways, efforts should be made gradually to develop finished oil product transport pipelines in area where rail traffic is heavy and the transport volume of finished oil products is relatively concentrated.

As for whether to choose railways or pipelines as the mode of transportation for the shipment of coal, we think more railways should be built to solve the problem of coal transport if a region has not yet formed a railway network, its transportation tasks are heavy, it does not have many accesses to railways, its reserved capacity is inadequate, its transportation is not highly flexible and its regional economy is relatively backward. For example, Shanxi Province in China will become an important coal production base of China. Not only will its transport volume of coal double but its transport volume of other agricultural and industrial goods and materials will increase by a relatively large margin as well. Along with the development of the local economy, Shanxi Province will urgently need to build railways. Coal transportation pipelines cannot satisfy these multi-use demands, especially the promotion of the local economy. Therefore, proceeding from the actual conditions of national economic development, we still need to build more railways. This is a road that a developing country with a vast territory must follow in its development of communications and transportation.

4. Division of labor between rail and air transit

Despite high costs and energy consumption, air transportation occupies a special position in long-distance and international passenger transport because of its high speed and ability to surpass various natural obstacles.

Based on the actual conditions of China, rail and air transit should be closely coordinated mainly in passenger transport. We think that civil aviation should handle more long-distance passenger transport. This may to some degree alleviate the tense situation of passenger transport that results from a rapid growth in passenger transport.

In sum, we should make clear that railways are the prime means of transportation in China and at the same time place each mode of transportation in its proper place, rationally develop and utilize the transport capacity and accelerate the rational development of China's communications and transportation.

12302

CS0: 4006/14

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

LABOR CONTRACTORS' EXPERIENCE IN MIDDLE EAST

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 6, 27 Jun 84 pp 15-17

/Article by Wang Huiyao /3769 6540 5069/: "Middle East Labor Contract Market and Its Future Development"

/Excerpts/ In recent years, the labor contract market in the Middle East has been the constant focus of the world's attention. Following the rise of petrodollars, since the 1970's, countries in the Middle East have begun the large-scale construction of various projects. The area has attracted a large group of foreign contract firms and many foreign workers due to these countries' lack of technical strength and labor resources.

Thanks to an almost 10-year rise in the Middle Eastern contract labor market, contract engineers and foreign companies that provide labor to the area are now encountering some new problems. Our foreign contracting companies should pay full attention to these problems, otherwise our future work will be adversely affected.

1. The Rise of Local Contracting Firms. Due to the fact that construction in the Middle East has been on the rise for a relatively long time, some local construction companies have developed that can undertake some easy medium- and small-size projects. At the same time, many Middle Eastern countries have begun to formulate relevant laws and policies to protect the companies there. For example, Saudi Arabia, Kuwait, Jordan and other countries are making new regulations. Foreign countries that have contract engineers there must have the participation of local contractors or labor personnel; they cannot undertake new projects otherwise. Some Middle Eastern countries have also decreed that foreign companies engaging in bids must form partnerships with local companies. Some countries have even thrown out the bids of foreign countries on medium- and small-size projects. All of this indicates that the competition there is constantly increasing.

2. Increases in Large-size and Complicated Projects and Upgrading the Qualifications of Laborers. As for some medium- and small-size simple projects, following 10 years or so of continuous construction in the Middle East, local companies can now provide contracts. Furthermore, these projects have reached a definite size and quantity; they cannot increase very much in the future. They will be replaced by even more large and medium-size complicated projects that

will spring up, such as energy resources, petrochemicals, telecommunications, mechanized manufacturing, railroads, highways and bridges. Such projects will allow foreign contracting firms ample scope for their abilities, and local companies cannot possibly compete with them. Following the construction of these projects, the demands of Middle Eastern countries for qualified laborers will continuously rise, unlike previous demands for a large number of common laborers. According to World Bank statistics, by 1985 approximately 3.61 million foreign workers will be needed by the six major petroleum-producing countries in the Middle East and by Algeria in North Africa. Of this figure, 1.11 million will be skilled workers; 3870,000, semiskilled workers; 550,000, common laborers; 380,000, various cadres; 330,000, technical personnel; about 210,000, engineers; and about 170,000, other specialists. Compared to former figures, the demand for common laborers is falling greatly. However, the several major Asian labor-exporting countries to the Middle East, namely, Pakistan, India, Thailand and the Philippines, will be unable to provide any more qualified laborers due to a shortage of skilled laborers, while our country's foreign labor cooperation is just unfolding. We have formidable and numerous technical labor resources. Therefore, the prospects are bright for labor cooperation between our country and the Middle East.

3. Government Subsidies Are Strong. Foreign contracting firms are providing long-term loans or export credits as subsidies for many contract projects in the Middle East to solve the problem of insufficient funds at present, because the price of oil is low and because of the prolonged war between Iran and Iraq. It could also be said that this is a common problem at present. For example, in 1983 Iraq contracted a sum of U.S.\$8.7 billion. However, a large portion of this requires that foreign companies provide long-term loans, export credits or petroleum exchange payments for part of the expenses. The problem of needing foreign subsidies exists to varying degrees in other Middle Eastern countries. Therefore, foreign firms must have the support of their own governments if they want to contract for even more projects there. At present, contractors in the Federal Republic of Germany, France, England and Japan are subsidized by their governments in order to contract for even more projects.

4. Providing Complete Engineering Services. Foreign firms desirous of contracting even more projects in the Middle East in the future should seriously consider providing complete engineering services. There is a new trend in the Middle East right now; the countries there hope not only that foreign firms will contract for construction projects but that these firms can provide and install the necessary equipment for the project and supply project consultation, personnel training, etc. Projects generally requiring such work include plants, hospitals and schools. In this way, foreign firms can be even more competitive.

In sum, although there are some new demands on foreign firms and labor under the new situation in the Middle East, the area will remain as the most lively contract labor market in the world for a relatively long time in the future.

At present, more than one-half of our foreign contracting figure and more than two-thirds of the labor cooperation personnel are concentrated in the Middle East. Therefore, we should give high regard to and strengthen our study of this market, continuously solving new problems encountered in contract

engineering and labor cooperation. For a rather long time in the future, the market will be short of a great number of technical labor and personnel, and the main labor-exporting countries of Asia will be unable to supply much more. Therefore, provided that we continuously work hard for now on, there will be even brighter prospects for the labor cooperation that is just unfolding between the Middle East and us.

12615

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PUBLICATIONS

PRC PUBLISHES ADVERTISING PAPER

Beijing GUANGMING RIBAO in Chinese 25 Jul p 1

[Article: "New Chinese-Language Advertisement Information Newspaper To Appear Soon"]

[Text] The first issue of China's first advertising newspaper--CHINESE ADVERTISEMENT INFORMATION NEWSPAPER--will soon be published. That paper is jointly sponsored by the Propaganda Department, Mengzun Hui Nationality Autonomous County CPC Committee, Hebei Province and GUANGMING RIBAO'S Scientific and Technological Services Company. It is aimed at conducting market research, providing information on market trends and guidance to consumers and promoting circulation.

As a newspaper jointly published by an urban and a rural area, its appearance marks the entry of a rural information organization into the cities. Apart from giving full play to the special features of an advertising medium and acting as the forum for various information networks in China and abroad, the journal will be able to provide a host of services through its service-related departments, such as assisting in the propagation of new scientific and technological achievements, new technologies and products; developing consultative media about scientific and technological advances; supplying required information and materials; conducting feasibility studies and plans of decisive importance; passing on job opportunities to qualified professionals; providing market forecasts; providing information feedbacks; handling the distribution of new products; drafting contracts on behalf of concerned parties; and so forth.

The journal has four pages and is published nationwide on Fridays.

12661

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ANHUI PROMOTES FOREIGN TRADE, ECONOMIC COOPERATION

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 31, 6 Aug 84
p 18

[Interview with Zhang Guohui [1728 0948 6540], chief of foreign trade department, Anhui province, by staff reporter Lin Ts'ui-ying /2651 5050 4134]]

[Text] Anhui's export commodity exhibit, its first large-scale exhibit in Hong Kong, will open on 11 August. On the eve of the exhibit, the reporter of this publication interviewed exhibit delegation leader Zhang Guohui, chief of Anhui's foreign trade department, and asked him to discuss the purposes and hopes of the exhibit.

According to department chief Zhang, the exhibit stresses display and integrates exhibition with marketing. It will comprehensively reflect the level of Anhui's economic development, the features of its export commodities and the vast prospect of its foreign trade, and improve the understanding of Anhui on the part of Hong Kong-Macao's industrial and commercial circles and figures of all fields. By means of the exhibit, the delegation will come into wide contact with economic and trade figures in the Hong Kong-Macao region and overseas, discuss import and export trade and vigorously open up channels for commerce and economic cooperation. Department chief Zhang said that, to put it simply, the purpose is to make a wide circle of friends and increase understanding and interchange.

The delegation brought 1,800 varieties of exhibits in 114 categories, totaling over 8,400 items. Most are Anhui's traditional export products, and some are new products to be shown to the customers for the first time. They will be displayed in six showrooms, namely, light industry, heavy industry, grain, oil, food and tea, textile and silks, machine equipment, and local produce and animal by-products. Trade discussion rooms are set up in the showrooms, and Hong Kong-Macao and overseas figures in the trade circles are welcome to discuss business and make cash or time purchases.

Several movie and television documentaries on Anhui's local conditions and customs and the historic and scenic sites of Huangshan and Jiuhuashan will be shown at the exhibit.

During the exhibit, Anhui's vice governor Hou Yong [0186 3057] will lead a delegation to Hong Kong to meet with Hong Kong and overseas industrial and commercial figures. He will announce a batch of Anhui's projects to recruit foreign capital and import advanced technology and equipment. He hopes to hold discussions with Hong Kong-Macao and overseas economic figures and develop manifold flexible trade patterns such as joint ventures, wholly-owned enterprises, cooperative enterprises, compensatory trade, equipment leasing, and processing of imported samples or of imported raw materials. Anhui's International Economic and Technological Cooperation Corp will provide such services as foreign contracting, technical service and labor cooperation.

According to department chief Zhang, our overseas friends were not very familiar with Anhui in the past. Before 1980, Anhui's commodities were exported through nearby ports. In 1978, it had only 10-plus export commodities and the total value of export was approximately \$10 million. With its thorough implementation of the policy of opening to the outside and enlivening the economy at home in recent years, industrial and agricultural production rapidly increased, and a flourishing new situation in foreign trade emerged. From 1979 to 1983, the purchasing volume of Anhui's export commodities increased at an average rate of 10 percent or more per annum, and the volume of exports handled by itself increased at an average rate of 74 percent per annum. The total value of its 1983 exports reached \$170 million. Today, it has developed direct trade with more than 80 countries and regions.

Department chief Zhang stressed that the Hong Kong-Macao region occupies an important position in Anhui's foreign trade and that currently its commodities shipped to Hong Kong are steadily growing in variety and quality, especially agricultural sideline products and local specialized products. In the supply of fresh eggs, for instance, Anhui is first among the various inland provinces, and one out of every four eggs sold in Hong Kong comes from Anhui. It also supplies 10 percent of all frozen pork shipped from the interior to Hong Kong. In addition, its large crabs, frozen shad, mushrooms, feather and down, feathers and rabbit fur and some light industrial, textile and machinery products also enjoy a fine reputation in the Hong Kong-Macao market. He feels that the exhibit will promote a greater development in Anhui's export and import trade with Hong Kong and Macao.

Anhui's export commodities are quite abundant and diversified. In terms of grain, oil and foods, there are rice, peanuts, sesame seeds, soybean, miscellaneous beans, frozen pork and fresh eggs, while the large crabs, shad and Caohu whitebait are famous items of long standing. Its local produce and animal by-products include tea, bluish dogbane, tobacco, peppermint oil, feed, feathers, feather and down products, rabbit fur, goatskin, hog bristles and sausage casings. Its Qimen red tea, Tunqi

green tea, Huangshan Maofeng tea and Liuan Guapian tea are nationally famous. The quality of its feathers and down and rabbit fur are foremost in the country. Its main export machinery products are miniature motors, valves, bearings, grinding tools, machine tools, instruments and meters, and medium and small equipment in sets. In terms of light industrial and textile products, cotton yarn and cloth, towels and bed sheets have become volume export commodities, while the market for silks and satins, linen fabric, rabbit fur and sheep's wool products and numerous blend fabrics is gradually developing. In handicraft, Anhui exports the Xuan paper, Xi inkstone, Xuan brush and Hui ink stick, the "four treasures of the study," which are famous at home and abroad. In addition, it has also developed for export ceramics, drawnwork, and straw, willow and bamboo products.

Department chief Zhang said that, to promote trade, Anhui's various import and export companies actively adopted all kinds of flexible patterns, developed such businesses as imported raw material processing, processing of imported sample and drawing, imported parts assembling, processing of imported material, and compensatory trade and, according to the need, took in accessory materials, parts, labels and trademarks furnished by the customers.

Finally, on recruiting foreign capital and developing economic cooperation, department chief Zhang indicated that Anhui will focus on six aspects: 1) in agriculture, importing and cultivating superior varieties in livestock and planting, importing technical equipment for compound fertilizers and high efficiency and low toxin insecticides, and organizing intensive processing by utilizing Anhui's large grain, oil and fruit output; 2) in energy, recruiting foreign capital to exploit coalfields and develop the coal chemical industry; 3) in building material, utilizing the abundant limestone resources for large and medium cement plants while importing technology to develop lightweight materials for walls, marbles, glazed tiles and sanitary equipment; 4) in metallurgy, importing aluminum and copper processing technology and key equipment; 5) in light and textile industries, importing the technology of printing and dyeing cotton, wool, linen, silk and synthetic fiber textiles and new equipment for the aftertreatment of leather and fur, processing of leather products, and packaging of plastics, foods and printing; 6) in electronics, improving the production technology of electronic components and developing the production of household appliances and microcomputers.

Department chief Zhang repeatedly expressed his welcome to the Hong Kong-Macao and overseas figures in all fields to attend the exhibit and discuss trade and cooperation for common development. The exhibit will be held from 11 to 26 August on the 5th floor of the Wanchai Hong Kong Exhibition Center.

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CSO: 4006/2-A

LEGAL CONSULTATION OFFICE OPENS IN SHANGHAI

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 31, 6 Aug 84
p 20

[Article: "Legal Consultation Office of the Shanghai Branch of the
China International Trade Promotion Association Opens"]

[Text] The legal consultation office of the Shanghai branch of the
China International Trade Promotion Association formally opened on 1
July.

Its purpose is to furnish legal aid to domestic and foreign industrial
and commercial enterprises, organizations, units and individuals in all
forms of Chinese-foreign cooperation. The sphere of its work covers the
following:

1. Accepting commissions and performing, in China and abroad, legal
agency work on litigation and arbitration in foreign trade and maritime
affairs.
2. Accepting commissions and assisting the parties concerned to solve,
through consultation, disputes in international trade and maritime affairs.
3. Accepting employment and serving as legal consultants.
4. Providing legal consultation service on foreign trade and maritime
affairs and supplying written statements of legal opinions.
5. Providing consultation service on foreign registration of Chinese
trademarks and Chinese registration of foreign trademarks and handling
such registrations on behalf of the parties concerned.
6. Acting on behalf of the parties concerned on matters connected with
patents.
7. Handling other legal matters connected to foreign trade.

Office address: 33 Zhongshan Dongyilu, Shanghai City.
Telephone: 214244.

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CSO: 4006/2-A

CHINA ENCOURAGES FOREIGN INVESTMENTS

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 31, 6 Aug
84 p 27

[Article: "China Vigorously Supports Investment by Foreign Firms"]

[Text] Since the introduction of the open-door policy, China, following the principle of equality and mutual benefit, has made great achievements in promoting foreign economic cooperation and technical interchange. The most obvious are the flourishing joint ventures, cooperative ventures and wholly-owned enterprises. As the items of operation are geared to the need of China's four modernizations program, and with the proper management and the support and cooperation of China's financial and trade structures, they are all profitable. Today, more and more Hong Kong-Macao and foreign enterprises and cooperations are proceeding to the inland and coastal cities to hold talks and sign agreements or intention statements, and an unprecedented scene has emerged.

Statistical figures can best illustrate the situation. In its active support of joint ventures capital, cooperative ventures and foreign wholly-owned enterprises in the past 4 years, the Bank of China, as the special bank in charge of foreign exchange, issued foreign exchange loans totaling \$129.65 million, with the amount of funds tied up at the end of the period totaling more than \$50 million; and renminbi loans totaling more than 300 million yuan, with the amount of funds tied up at the end of the period totaling more than 170 million yuan. These loans promoted a group of joint venture projects, supported their production and operation and enabled them to make profits.

As shown by practice, in opening the door to the outside and encouraging and supporting foreign investors, China is always truthful in words and resolute in deeds. Regardless of the trade or industry, all which conform to the need of China's economic development, import advanced technology and products favorable to the growth of its export market, create products that can replace imports, and increase its foreign exchange receipts will receive aid for their development. Importing the technology and equipment for wine making, the Sino-French joint venture Tianjin winery, for instance, showed notable economic results and thereby obtained loans from the Bank of China. In the past 3 years,

its profits surpassed the total investment of both sides. A shoe factory in Nantong, jointly operated with Japan's (Liwang) corporation, for instance, ships all its products back to Japan for marketing. With the loans of the Bank of China, it has made a profit of 800,000 yuan since it was put into production a year ago. When the Zhuyuan guesthouse jointly operated by the Hong Kong "Miaoli Group" and a Shenzhen food and beverage service corporation experienced difficulties in circulating funds, it also received loans from the Bank of China, thereby enhancing the confidence of foreign investors.

"When there seems to be no path at the end of the mountains and waters, another village appears amidst the willows and flowers." The growth of some joint venture enterprises was not all smooth sailing. They encountered certain problems and difficulties in their economic cooperation and technical interchange with the Chinese side. These were mainly due to the shortcomings in the work of some departments and flaws in the systems, such as imperfections in certain relevant laws and decrees, the drawbacks of the old economic systems, the serious bureaucracy, and so on. Nevertheless, as the central government is determined to implement the open-door policy, all these are merely secondary difficulties and obstacles on the road of progress which can be easily surmounted. One should say that the achievements are the main concern. The gradual increase of foreign investments and the remarkable results are seen by all. At the end of 1983, by means of intergovernmental loans, bank loans, direct foreign investments, joint venture operation and cooperative venture operation, a total of \$14.6 billion in foreign capital had been invested in 190 joint venture enterprises, 1,123 cooperative enterprises, 31 cooperative exploration and development projects and over 1,000 compensatory trade projects.

According to figures published by the Ministry of Foreign Economic Relations and Trade, direct foreign investments in the first half of this year almost doubled those of the same period last year. In the 6 months, China approved 172 joint venture enterprises. In the past 5 ½ years, China approved a total of 362 joint venture projects, and foreign investments totaled \$530 million.

All these fully indicate that China is the most attractive market in the world today. China's gates are wide open and the conditions continue to improve. Shouldn't foreign investors with vision come and join us?!

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CSO: 4006/2-A

DALIAN OFFERS PREFERENTIAL TREATMENT TO OPEN DOORS FURTHER

Hong Kong JINGJI DAobao /ECONOMIC REPORTER/ in Chinese No 33, 20 Aug 84 p 28

/Article by Chang Chung-ch'ing /1728_6850 1987/: "Preferential Treatment and Dalian's Plan To Open Doors Further"/

/Text/ There was a strong domestic and foreign reaction following announcement of the news at the beginning of this year that China would further open 14 coastal cities, including Dalian. Many of our provinces and autonomous regions sent people to Dalian to look into the cooperative establishment of economic and technological development businesses. They also expressed an interest in establishing agencies or branches in Dalian. Over 50 economic departments, embassies to China, banks, companies and representative offices in Beijing from Japan, the United States, France, West Germany, Canada, Denmark, Hong Kong, Macao and other countries and regions sent people to Dalian to discuss the establishment of economic and technological development zones and to engage in various forms of economic and technological cooperation. Others sent letters and telegrams expressing their interest in cooperating.

The Dalian city government has already designated the leading organs and construction company responsible for work in the economic and technological development zone; the Economic and Technological Development Company will carry out planning and preparatory work in the zone.

According to the preliminary plan, the zone will be set up in Maqiaozi Village, in the Dagou Mountain area, Jin County, 30 km to the northeast of the city center and adjacent to the new port zone planned for Dawo Bay. The zone will be supported by a large port, with industry as the mainstay. A concentration of Sino-foreign joint ventures, enterprises cooperatively and exclusively foreign owned, Sino-foreign cooperative scientific and technological agencies, economic information centers and international entrepot trade will be established there. The area of the development zone is 50 square km and can be appropriately expanded as development requires. It is well situated and suited to development and construction, and transportation is convenient. It is near to the bay in the south and there is a mountain chain to the north. The first stage of preparations for the project will be done on a 5 square km area within the city, of which 3 square km will be the economic and technological area and the other 2 will be used for building a scenic seashore and a cultural recreation area, apartments, villas and commercial service facilities. The first stage of

construction is planned to begin in August of this year, and the authorities will strive to complete the "preparations of the infrastructure for a construction project" (water supply, roads, electricity, gas, communications, heat supply, discharge of pollutants and land leveling) within a year or so. Some up-to-standard factories will be built at the same time. As for the direction of development, the Dalian Economic and Technological Development Zone will build a group of industries that consume a small amount of energy, cause little or no pollution and are knowledge- and technology-intensive, mainly the electronics, meters, precision machinery and alloy, new materials, sophisticated chemical industry, and foodstuffs and beverage industries. Advanced technology greatly needed by China will be introduced, as well as projects concerning goods that are marketable internationally, products in short supply at home, particularly in the northeast, or those advantageous to technological transformation. Projects in the heavy industries will be mainly introduced into the old urban area.

The Dalian Economic and Technological Development Zone will enthusiastically accept funds and advanced technology from overseas Chinese, Hong Kong, Macao and Taiwan compatriots and from various countries (regions). Within the zone, jurisdiction over examination and approval of projects using foreign capital can be executed in light of Special Economic Zone regulations, based on relevant state regulations. Foreign businessmen investing in the development zone will be given a series of preferential treatment breaks. Income taxes shall be reduced to 15 percent for Sino-foreign joint ventures and for cooperative and exclusively foreign-owned enterprises of a productive nature. Remission taxes shall not be levied on reasonable profits earned by foreigners. There will also be preferential policies and administrative methods for imports of construction materials, production equipment and raw materials for the personal use of enterprises within the zone and the export and domestic sale of their products. Any foreigner's products that truly provide advanced techniques, technology and equipment will be provided with some of the market by Dalian and a certain proportion of the goods will be allowed for sale in China. Entry and exit procedures will be simplified for all foreigners, overseas Chinese and compatriots from Hong Kong, Macao and Taiwan visiting the development zone.

In its use of foreign capital and the introduction of advanced technology, Dalian must first stress as its goal the technological transformation of old industries and upgrade product quality, increase the variety of goods, reduce consumption and improve economic results to get on with a group of medium and small projects that take little investment and have a fast turnover and good earnings. At the same time it must select those truly advanced foreign technologies that can, after introduction, promote the technological transformation of entire trades and whose products can open foreign markets and substitute for imports, as well as rather large investment development projects. In the old urban area, it must actively set up Sino-foreign joint ventures and cooperative ventures and allow complete foreign-owned enterprises.

Henceforth, jurisdiction over examination and approval for construction projects using foreign funds in Dalian has been expanded to cover amounts of less than U.S. \$10 million. The state's sum of foreign exchange for Dalian has been

increased to U.S.\$100 million and the Bank of China's foreign exchange loans have been correspondingly increased. Prior to 1990, customs duties and the unified industrial and commercial import tax shall not be levied on imports of crucial equipment, meters, instruments and other items needed for technological transformation that are in short supply at home, regardless of the source of foreign capital. In the old urban area, any technology- or knowledge-intensive projects, or foreign investments greater than U.S.\$30 million, and investment projects with long-term repayment terms that are Sino-foreign joint ventures or cooperative ventures, or entirely foreign investment enterprises, can have their income tax reduced to a 15 percent levy with the approval of the Chinese Ministry of Finance. In these productive enterprises, productive and administrative equipment, construction and raw materials imported by investment; family allowances and personally carried items (limited to a reasonable amount) imported by foreign businessmen and technical personnel are all free of customs duties and the unified industrial and commercial tax on imports. Products of these enterprises will be free from export customs taxes and the unified industrial and commercial tax linked to industry.

Presently Dalian is intensifying construction of capital installations. Expansion of the civil airport began in April and the main part of the runway can be completed by year end. Large Boeing 747 passenger planes can take off and land there, allowing international air travel. Dalian's postal and telecommunications facilities are now being improved. A 960-line microwave communications project will be completed this year and turned over to the users. Attention is being paid to negotiations over the introduction of a programmed switchboard from overseas. Dalian's energy resources supply is gradually improving. A 500-ton-a-year coal-unloading Heshang wharf project will begin this year, a 600,000-kw harbor power station is being planned, attention is being paid to construction of a 220,000-volt high-tension transmission line and a 500,000-volt high-tension transmission line is being actively planned. In September of last year the Biluhe River reservoir began to dam up and store water, and the first stage of the project, drawing on water from the River to Dalian, has been completed. The old problem of scarce water in the city has been solved. A grade-one highway from Shenyang to Dalian is being built and hotels to accommodate foreign guests are being constructed, extended and revamped. The number of beds to accommodate foreigners will increase to over 300 this year. Presently, attention is being paid to building Dalian's tourist and recreation facilities, and foreign businessmen coming to Dalian can be assured of the necessary food and lodging. In April of this year, the state approved Dalian's change from a B-type to an A-type of open city, removing visa procedures for foreign businessmen going to Dalian and making it more convenient for foreign guests.

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CSO: 4006/744

HONG KONG ECONOMIC TRENDS

COOPERATION PROSPECTS BETWEEN HONG KONG ELECTRONICS INDUSTRY, PRC

Guangzhou GANG-AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese
No 3-4, 1984 pp 57-62

[Article by Chen Jiwen [7115 4949 2429] and Huang Yi [7806 5042], Special Region Hong Kong and Macao Economics Institute, Jinan University: "Prospects for Cooperation Between the Hong Kong Electronics Industry and China"]

[Text] The electronics industry is something that must be developed to build the four modernizations in our nation. The Hong Kong electronics industry has reached a definite economic level and its products have competitive power on the international market. Strengthening cooperation with the Hong Kong electronics industry is an effective way to introduce foreign capital and advanced technology, effect the transformation of our domestic electronics industry and accelerate an increase in product quality and enter the international market.

Prospects for Development of Hong Kong Electronics Industry and Difficulties with Which It Is Faced

For a period of over 10 years, the Hong Kong electronics industry has stayed in the lead over various developing nations and regions. In addition, Hong Kong electronics plants do an active business, exhibit a rapid response and have hardworking laborers, excellent subsidiary industries and excellent base facilities. The few weak points in its industrial structure are not enough to obstruct its development. On the contrary, it has a rapid rate of development.

However, as the new industrial revolution approaches, the Hong Kong electronics industry must readjust its technological and economic structure if it is to be able to cope with the challenge from outside.

At present, there is a very great rise in the technological level of the electronics industry in various countries of the world. Not only is there intense competition for the lead among such advanced nations as the United States and Japan, but a great effort is also being made to develop new technology in the Asian Pacific region in South Korea and in Taiwan Province of our nation, with a great effort being made to lessen the gap with the advanced nations. If Hong Kong does not make an effort, it may fall behind in this intense competition.

Great changes will also occur in the world electronics market. Generally speaking, there will be a rapid expansion of the market for high-grade, high-quality and high-performance products such as integrated circuits, computer parts, communications equipment and various types of industrial and electrotherapy electronic instruments and equipment. On the other hand, avenues for sales of general consumer goods such as television sets, acoustical equipment and household electrical devices will undergo a leveling off of demand. The rate of this leveling off will occur when the saturation point of the international market and particularly that of backward nations in the Third World have been reached. Therefore, different products are affected by different circumstances. However, generally speaking, the exports of the Hong Kong electronics industry will encounter this type of immense assault of change.

Because the world market for general consumer electronics products will be reduced, Hong Kong's exports of this type of product will meet intense competition from other advanced nations and regions. In addition, land prices in Hong Kong and such production cost factors as wages will continue to undergo gradual increase and may become disadvantageous in competition. The rise of protectionism on a worldwide basis will also threaten exports of this type of product. For example, beginning in October 1981, France put a quota into effect on Hong Kong electronic watches, thus restricting imports. Countries in the Middle East, Southeast Asia and South America have also put limitations on the importation of semifinished and finished electronic products by means of customs duties.

Because of the development of the electronics industry, some of Hong Kong's export electronic components will be replaced by new products. For example, computer storage disks, which are the most important computer components among Hong Kong's exports, are rapidly being replaced by integrated circuits. This type of change in basic technology caused a decrease of 22 percent in exports of Hong Kong computer components in 1982.

The way out for the Hong Kong electronics industry lies in the readjustment of its technological and economic structure. It is generally recognized that the direction of readjustment should be to raise the technological level, strengthen research and development capacity and develop high-grade products. In terms of modes of production, it will be necessary to take a greater initiative in exports and to diversify the export market. A scale structure should be established for cooperation in adaptation, expansion and specialization.

In recent years, several comparatively large Hong Kong electronics plants have begun to move in this direction. For example, the Weiyida Electronics Company has invested 10 percent of its operating funds in research and development each year and has 60 specialized personnel engaged in research and development. In 1980, a computer game produced by the research of this company won the prize for superior design awarded by the Hong Kong Chamber of Commerce. In recent years, the Kangli Group has devoted its efforts to developing communications products. In 1982, it was still only producing consumer products, whereas in 1983, consumer products accounted for only 25 percent of its production, with communications equipment accounting for 75

percent of its production. A new product, a microrecording telephone, which was produced by the Shengde Plant, a subsidiary of the aforementioned group, also won an award.

From an overall standpoint, there has been a continual increase in the technological level of the Hong Kong electronics industry in recent years. This is reflected in the concrete changes in the nature of production by order. In the early stages, everything was based on foreign designs, and various imported parts were assembled under the guidance and supervision of foreign technicians. At present, performance must be maintained in basic accordance with the research standards of foreign countries. However, production design can be changed on the basis of orders or actual circumstances and there has been an increase in capacity to meet emergencies. Nevertheless, in comparison with other regions, the increase in the technological level of the Hong Kong electronics industry has not made very great strides and the great majority of plants still lack the capacity for independent research and development. Thus, it has not been possible to bring about a basic change from reliance on foreign countries for technology.

Although the Hong Kong electronics industry is making an effort to diversify its export market, there still has not been very much change from the state of concentration of the market in the United States. The major reason that the effort to diversify the export market has met with very little success is that the great majority of Hong Kong factory owners still do not have the capacity to establish sales networks in foreign countries. The lack of capacity to expand markets results in negative effects in three areas. First, a state of processing on receipt of orders or of "waiting for rice to fall from the kettle" arises so that only products that are in vogue can be produced, with production being arrested at the stage where foreign products are imitated. Second, there is no way in-depth market surveys can be made when new products such as household electrical equipment is being designed. As a result, there is fairly great risk and the capacity for developing high-grade products is weakened. Third, large, medium-size and small enterprises all rely on processing by receipt of orders. Similarly, there is fairly intense competition among them for the production of finished products so that it is difficult for specialized cooperative relationships to be formed.

Generally speaking, there has been a slow change in the technological and economic structure of the Hong Kong electronics industry. This is a clear reflection of the fact that progress in developing high-grade products is far from ideal and the gap with South Korea and Taiwan is comparatively great. The only successes in design and style by Hong Kong have been in such high-grade electronic products as television games and telephone-receiver equipment, whereas South Korea and Taiwan are producing high-grade products such as television recorders and industrial equipment combined with electronics technology and precision processing. This is a momentum which is especially deserving of serious consideration.

The comparatively high degree of specialization of high-grade products and the demand for a high level of technology require the application of a large number of technical forces to carry out research and development and the application of a large amount of funds for the purchase of specialized

instruments and equipment and also require the establishment of good sales organizations. Before a product is designed, there must be in-depth market surveys, and after products have been sold, repairs and servicing must be provided. Local Hong Kong electronics firms are generally medium-size and small enterprises with limited financial resources and with inadequate technological strength. Their foreign independent sales networks are weak. Even if every effort is made to develop high-grade products, in most cases they are unable to accomplish what they want. Moreover, because no specialized cooperative relationships have been established among large, medium-size and small enterprises, the small number of large plants that have the capacity to produce high-grade products cannot obtain the support of smaller plants for fittings and components. Rather, they are often subjected to the competition of mass-produced, cheap and low-quality products of the small plants. This affects progress in innovation and the replacement of high-grade products. These circumstances indicate that it will be difficult for the Hong Kong electronics industry to effect changes in its technological and economic structure by relying solely on its own forces.

Foreign capital has already provided a great impetus to the development of the Hong Kong electronics industry. At present, is it possible to rely on outside funds to acquire advanced technology and to provide an impetus to changing the technological and economic structure? In the past, American and Japanese capital looked on Hong Kong as a base for processing electronics products at low cost and it was primarily processing technology that was introduced. Although there have been continual increases in foreign capital in the electronics industry, there has been essentially no change in the practice of primarily introducing processing technology. At present, the United States and Japan, which are leaders in electronics technology, have put a blockade on the export of high-grade technology to developing nations and hesitate to transfer advanced technology in order to avoid creating their own competitors. Only if there are very great changes in the investment environment of Hong Kong will foreign capital be likely to introduce advanced technology into Hong Kong.

Both support of the development of local firms and improvement of the investment environment will require the Hong Kong government to play an active promotional role and not to limit itself to an active, but noninterventionist one.

From the standpoint of the economies of various countries, the promotion of policies by governments is a major factor in accelerating the development of the electronics industries. The governments of South Korea, Taiwan Province in our nation and Singapore have adopted the following measures to accelerate the expansion of the electronics industry. They have established semiofficial industrial and science and technology research organs and industrial scientific groups in combination with research on production science in order to stimulate the development of microelectronics technology. They have promoted the growth of large trading companies in order to strengthen their capacity to open up export markets. They have intensified the training of employees and have raised the quality of the workers. They have provided financial and tax incentives to the electronics industry and have coordinated its

development. They have promoted the establishment of a system of central plants and satellite plants in order to expand specialized cooperation.

Pressed on all sides by the industrial sector and by scholars, the Hong Kong British authorities have taken a positive attitude toward industry in general and toward the electronics industry in particular and have taken the following direct or indirect measures to support the development of the electronics industry.

1. They have improved the Hong Kong standards and service facilities of the inspection center under the jurisdiction of the semiofficial Hong Kong General Chamber of Commerce.

2. In August 1980, an industrial development committee was established. This committee has allocated funds to carry out technological and economic research in the electronics industry and has also allocated HK\$3.2 million to support plans for research microelectronics at Hong Kong University, the Hong Kong Chinese Language University and the Science and Engineering Institute.

3. An electronics service department has been established as a center for promoting the productive forces of the technological arm of the Hong Kong British Ministry of Industry and the scope of its services is gradually being expanded. An applied microcomputer laboratory has also been established.

The direct allocation of funds by the Hong Kong British authorities to universities for carrying out research on electronics technology is regarded as a breaking of the restraints of the policy of noninterference. This is clearly a reflection of the urgency of the situation. However, the measures taken by Hong Kong are still insufficient in comparison with the forceful measures taken by the governments of South Korea, Taiwan Province of our nation and Singapore. First, the quantity is insufficient. Development of advanced electronics technology requires massive funds and the support of many sectors. Reliance only on the allocation of a few million Hong Kong dollars is insufficient. Second, the use primarily of supplementary assistance is of help only to a small number of firms with the capacity to develop advanced products but has little effect on the numerous medium-size and small plants. Third, an essential concern has not been shown for coordination of the development of the electronics industry. However, research on electronics technology and an overall plan for development, the coordinated development of all sectors of the electronics industry and the establishment of specialized cooperative relationships among large, medium-size and small enterprises are all clearly extremely important for the development of the electronics industry.

In looking toward the prospects for the Hong Kong electronics industry, Peng Jiewen [1756 2638 2429], executive director of the Kangli Investment Company of Hong Kong, stressed the following: "This will be determined by three factors: first, the establishment of a structure for coordination between large and small enterprises; second, the expansion and opening up of markets; and, third, scientific and technological research. If these matters are not done well, the rate of development will be slowed." From a long-term

standpoint, it is important that the electronics industry be subject to the limitations of the conditions of its own technological development. Of course, from a short-term standpoint, it is still not very clear whether weaknesses in the technological and economic structure will be an obstacle to the development of the electronics industry. We believe that the Hong Kong electronics industry should grasp the opportunity and take a new course.

Progressive Effort of Cooperation with China on Development of Hong Kong Electronics Industry

After our nation implemented the policy of opening up to the outside and established special economic regions, knowledgeable persons in Hong Kong came to a keen realization that cooperation with China is a new way of accelerating the development of the Hong Kong electronics industry. Peng Jiewen wrote a special article in JINGJI DAOBAO in which he proposed cooperating with China in the development of the electronics industry.

Cooperation would be clearly advantageous for the development of China's electronics industry. The electronics industry is one of the areas of advanced development in our nation and is of particularly great importance in building modernization. Through cooperation with Hong Kong's electronics industry, and by utilizing its existing technological base and its extensive international technological and trade relationships, it will be possible to bring in foreign capital and advanced technology and equipment even more effectively, to accelerate technological transformation and improvement in the quality of products and to promote the development of our nation's electronics industry.

Cooperation can similarly have a great stimulating effect on the Hong Kong electronics industry. The evident effects would be in the following areas.

1. Lowering Production Costs and Increasing Competitive Capacity of Hong Kong Products on International Market

Hong Kong engages primarily in the production and export of general-consumption electronics products. The level of technology required for these types of products is not particularly high and there is intense international competition. Therefore, a continual lowering of production costs increases competitive strength and is thus of great importance to the Hong Kong electronics industry. Because of inflation over the past several years in Hong Kong, the exchange rate with the U.S. dollar has risen and there have been continual increases in wages, land values and service costs. A survey made by the Hong Kong Science and Technology Institute in 1982, it was found that 34 percent and 32 percent, respectively, of Hong Kong's medium-size and small firms believed that the greatest difficulties facing production in Hong Kong are high plant leasing fees and high labor costs. For this reason, investment in production cooperation in China could lower production costs and increase the export competitive capacity of Hong Kong's electronics products. Investment in Guangdong could lessen a great many obstacles facing medium-size and small Hong Kong firms that lack experience in international investment because of the closeness of social relationships from a geographical standpoint and because of familiarity with the language and culture. Therefore, the great majority of medium-size and small plants should consider several regions in Guangdong Province to be prime regions for outside investments.

With the gradual shift of the production of general-consumption electronics products into China, the land, plants, technological capacity and high-mass technology and the many experienced technicians of Hong Kong will have a basis for making the transition from traditional electronics industries to high-grade communications product industries.

2. Lessening Reliance of Hong Kong Electronics Industry on Foreign Components and Spare Parts

The value of the components, spare parts and other raw materials imported each year by the Hong Kong electronics industry is about 70 percent of the total value of its exports. It relies basically on imports for such basic parts of a high technological and high-precision level as integrated circuits and kinescopes. A high degree of reliance on foreign components and raw materials has two negative effects. First, the development of high-grade products by the Hong Kong electronics industry is controlled by the United States and Japan. For example, before the United States classified China as a V region, there were some products that it did not sell to Hong Kong on the pretext that this was to prevent the inflow of sophisticated technology into China. Second, adaptation to market demand is controlled by the countries that supply raw materials and spare parts. For example, in 1983, when there was a great increase in demand on the telephone market, plants in the other countries obtained priority supplies of spare parts and raw materials, whereas Hong Kong plants did not dare to accept large orders because of shortages of spare parts and raw materials. Not only was this the case, but because of the severe shortage of spare parts and raw materials, there was a rise in prices that resulted in the cost of the manufacture (including shipping costs) of each telephone set from \$5.10 in July to \$5.50-\$5.80 by October.

China has a definite latent capacity to provide components, spare parts and raw materials for the Hong Kong electronics industry. Within China, a comparatively complete, independent industrial system has been developed. After more than 30 years of development, the electronics industry is of a considerable scale. There are over 2,800 enterprises and there are more than 100 scientific research and design units that can produce more than 20 major types of products, more than 2,200 varieties of products and several thousand models of products. In the past, the technological standards for electronics components in China were backward and quality was poor. However, in recent years there has been a gradual shift from Soviet standards to advanced international standards. Moreover, as a result of the importation of advanced foreign technology and equipment, quality has been greatly increased and conformity to export market requirements has been raised. For example, the quality of a considerable portion of electronics components in Guangdong Province has reached grade 5 and there are some cases in which quality has exceeded grade 5, an increase of two grades compared to before 1981. We have already begun to export several components. If Hong Kong firms can find appropriate modes of cooperation in terms of investment, technology or relationships with foreign manufacturers, then they can decrease the reliance of the Hong Kong electronics industry on foreign spare parts and raw materials.

Several large Hong Kong electronics plants have consistently suffered from not being able to obtain supplies of good fittings and components from small

plants. In order to find a stable source of supply for components, they can stimulate the development of the production of components that meet demand through cooperation with China. For example, the Kangli Group plans to invest in establishing 14 electronic components plants in the Amoy Special District. This is in effect a case in which establishing cooperative relations with China serves to compensate in part for the insufficiency of specialized cooperation in the Hong Kong electronics industry.

3. Diversifying Electronics Export Markets Advantageous to Hong Kong

The export market is extremely concentrated with the result that dependency relationships have been produced. This is a secret worry for many firms. From a long-term perspective, there will be increases in tariff and non-tariff protectionism by Western nations. Historically speaking, in the 2 years of 1981 and 1982, 216 Hong Kong electronics firms stopped receiving orders because of economic decline in Europe and the United States or went bankrupt because overseas purchasers fell behind in payments or because of difficulties in turning around goods. For this reason, diversification of the export market would be of great significance to the development of the Hong Kong electronics industry. Development of cooperation with China will expand the demand in China for the high-grade electronics products and information industry products of Hong Kong. In recent years, there has been a gradual increase in the ratio of exports of the Hong Kong electronics industry to China as part of the total value of exports from 1 percent in 1970 to 2.6 percent in 1980, 4.1 percent in 1981 and 4.7 percent in 1982. Of these, there has also been a marked increase in the export of electronics components and spare parts. In 1982, Hong Kong exported HK\$584 million worth of electronics components to China, an increase of 59 percent compared to 1981. This accounted for 14 percent of the total value of exports of Hong Kong electronics components, an amount taking second place only to the United States. If there are high-grade components and products, the importance of the China market for the export of Hong Kong electronics products will grow. This would be a stabilizing factor on the exports of Hong Kong electronics industries.

4. Strengthening Hong Kong's Technological Base and Lessening Reliance on Foreign Technology

The Hong Kong electronics industry relies to a comparatively high degree on foreign technology. This weakens the capacity of the Hong Kong electronics industry to develop high-quality products. For example, Hong Kong hopes to develop integrated circuits. However, progress has been very slow. This is related to the fact that Hong Kong lacks basic research facilities.

Our nation's electronics industry also has similar problems. However, there are over 100 scientific research and design units and there are 110,000 engineers and technicians who have undergone specialized training. It is also possible to obtain technological support and cooperation from diverse sectors and latent capacity is great. With respect to integrated circuits, the Gansu Tianguang Integrated Circuit Plant and Fudan University have engaged in joint research in which they have succeeded in developing the bit-slice type micro-processor 2901, a dipole-type, large-scale integrated circuit. In Shenzhen,

which neighbors Hong Kong, initial plans have been drawn up for establishing a semiconductor institute for carrying out basic research on electronics technology. A plant has also been established to produce large integrated circuits in order to satisfy demand in Shenzhen and Hong Kong. Domestically, advanced technology can still be imported. The Hong Kong electronics industry can also develop advanced technology through diverse modes of cooperation with China, and joint scientific research can be undertaken in China using Hong Kong's technological information, technological experience and sources of technological knowledge. This will be advantageous in reducing the gap between our domestic electronics industry and advanced world levels. It can also strengthen Hong Kong's potential technological foundation and lessen its reliance on foreign technology.

Clearing away obstacles and Promoting Development of Cooperation Between Hong Kong's Electronics Industry and China

There are without doubt extensive prospects for mutual cooperation between Hong Kong and China in developing the electronics industry. However, the present scale of cooperation is still small and is not yet capable of bringing its positive effects into play. There are, certainly, diverse reasons for this. However, lack of long-term strategic vision and insufficient mutual understanding are perhaps the primary ideological obstacles.

Hong Kong firms have rapid responsiveness and high adaptability. However, in the sphere of investment there is comparatively little formulation of long-term planning goals. There are historical reasons for this that make it understandable. However, this is very disadvantageous to the development of cooperation with China. From the standpoint of the Hong Kong electronics industry, they should come to a clear understanding that cooperation with China is a way of overcoming the structural weaknesses of their enterprises and that it can accelerate changes in the industrial structure. They should take advantage of the opportunity and rise to the challenge of the new industrial revolution. Therefore, there must be long-term investment plans rather than calculation solely of the amount of short-term profit and the length of the period in which the capital is repayed. Of course, these questions can be resolved rationally in the matters of the modes and conditions of cooperation.

From the standpoint of our domestic electronics industry, it is hoped that the gap with advanced world levels can be reduced and that exports can be expanded as quickly as possible. When importing foreign capital and foreign advanced technology, it is correct to give priority consideration to the famous-name firms of the United States, Japan and other advanced nations. However, technology transfer is extremely complex and has its own requirements. At the same time, although Hong Kong plants do not have very advanced technology and equipment, they do have definite technological forces and reserves, a good science and technology information system, the capacity and conditions for introducing technological know-how and definite technological and management experience. If they can unite with the scientific research potential of China, the technological levels of both can be greatly increased. Although Hong Kong businesses do not have complete sales networks in foreign countries, they do have extensive international connections. Under conditions of mutual benefit

and under conditions of developing high-quality products, they can assist us in entering the international market or we can open up international markets together. From a strategic viewpoint and speaking from a domestic standpoint, this would be even more appropriate for developing cooperation with the electronics industry and the information products industry of Hong Kong so that the rate of development of Hong Kong's electronics industry will exceed the average level in the Asian Pacific region. This will be of benefit in maintaining the stability and prosperity of Hong Kong.

Hong Kong firms still lack a thorough understanding of the requirements and key points for the development of the domestic electronics industry at various times. For example, there may be fairly severe restrictions on cooperative projects in the area of general-consumption electronics products as the domestic electronics industry is gradually renovated. This does not involve changes in government policy. This situation can occur in any Western nation, although it may differ in form. If Hong Kong firms can foresee changes in circumstances and open up foreign sales markets in a timely way, or if they can replace products subject to restrictions with high-quality knowledge and high-quality technological products, they will make a success of cooperation. Cooperative relationships between Hong Kong and Guangdong are in many cases established on the incorrect view that our domestic economy is backward and that low-quality products can be sold in China for a long time to come. They do not realize that we are a country with a planned economy. In developing products, and consumer electronics products in particular, it is only necessary for us to import a few advanced production lines in order that the nature of domestic production and the market can undergo changes. Generally speaking, cooperative relationships should be based on foresight and foresight should be based on an understanding of the characteristics of domestic economic development. This is the foundation for establishing long-term cooperative relationships.

Those in the domestic electronics industry also do not have a sufficient knowledge of the characteristics of the industrial structure of the Hong Kong electronics industry. For example, when discussions are being held on cooperative projects, we will generally make the demand that Hong Kong increase its percentage of foreign sales as much as possible but do not make sufficient estimates of the reliance of Hong Kong on foreign markets and of the limited character of the practice of opening up new markets. Even if there were temporarily, a stable international market, it usually requires about 5 years from the time production comes on line until the quality of the product reaches the point at which it can compete on the international market. However, during this time, market conditions will have changed. Thus, it is not realistic to demand large foreign sales at the outset and it is not realistic to demand a large-scale increase in foreign sales after a long period of time. Speaking in terms of cooperation for mutual benefit, the key is to use Hong Kong's technological resources and strength to engage in the continuous development of new products. This is the foundation on which to develop prospects for long-term economic cooperation.

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